Costain Group PLC
Annual Report & Accounts
2020

Contents

Costain is a smart infrastructure solutions company

Our purpose is to improve people's lives. We deliver integrated leading edge smart infrastructure solutions to meet national needs across the UK's transportation, water, energy and defence markets.

Our services

Future shaping strategic consultancy

We work with our clients in their business and investment planning to develop new solutions to meet changing needs, leveraging our deep client insight, leading edge expertise and broad range of capabilities.

Consultancy and advisory

We improve our clients' business performance by providing value adding consultancy and advisory services, leveraging our deep client insight, leading edge expertise and broad range of capabilities.

Digital technology solutions

We transform business performance and infrastructure intelligence through the development and integration of leading edge digital technology solutions built on our deep client insight.

Asset optimisation

We combine our deep client insight and leading edge expertise to increase capacity, improve resilience, minimise downtime and reduce our clients' operating costs.

Complex programme delivery

Our complex programme delivery is safer, faster, better, smarter and costs less as a result of our pioneering working practices and collaborative behaviours.

See more online at
www.costain.com/investors/

Highlights

- **Operating effectively and profitably**
  - In responding to COVID-19 all contracts continue to operate effectively with clear safety measures and remote working in place.
  - Adjusted operating profit of £18.0m (2019: £37.9m), despite financial impact of COVID-19, in line with revised expectations.
  - Statutory reported loss before tax of £96.1m (2019: £6.6m) includes significant charges in relation to the Peterborough & Huntingdon (P&H) and A465 contracts.
- **Significant operational improvements made**
  - New leadership team, de-layered organisational structure and improved contract selection and risk management processes.
- **Continued momentum in securing new work in line with strategic focus**
  - £2.3bn of new contract awards and extensions, including £1.1bn of new contract awards and extensions and £1.2bn of preferred bidder positions at year-end.
  - £4.2bn order book.
- **Strong year-end cash**
  - Net cash of £102.9m (2019: £64.9m).
- **Confident outlook for 2021 and beyond**
  - Substantial and growing infrastructure market, positioned on significant long-term underwritten investment programmes.
  - Confident in delivering growth in profits and margins in 2021.

Adjusted[1] Group revenue

£1,070.5m

2020	£1070.5m
2019	£1,175.6m

Adjusted[2] profit before tax

£13.9m

2020	£13.9m
2019	£34.6m

Net cash balance[3]

£102.9m

2020	£102.9m
2019	£64.9m

Reported Group Revenue

£978.4m

2020	£978.4m
2019	£1,155.6m

Adjusted[2] basic earnings/(loss) per share

5.8p

2020	5.8p
2019	25.1p

Adjusted[2] operating profit

£18.0m

2020	£18.0m
2019	£37.9m

Last year was a challenging year but we are proud of how well everyone at Costain responded and the resilience shown across our business enabling us to continue to operate effectively with strict COVID-19 safety measures in place.

We are pleased to report an adjusted operating profit of £18.0m, despite the financial impact from COVID-19. The significant charges reported at the half-year relating to two contracts are clearly disappointing and importantly we have taken robust steps to prevent such issues from reoccurring.

Last year, we continued to be successful in winning new contracts and preferred bidder positions worth over £2.3bn with an increasing proportion of this work incorporating our broader service offering in line with our strategy.

The UK Government has provided a clear strategic framework for UK infrastructure investment underpinned by long-term underwritten investment programmes to support the UK Government's drive to level up economic growth and to meet decarbonisation commitments. We are confident that Costain is in a good position to capitalise on the opportunities in front of us and to grow our profits in 2021.

1 Before revenue impact of significant contract provision adjustments of £92.1m (2019: £20.0m) (see financial statements note 3 on page 139).

2 Before net other items of £10.3m (2019: £21.1m) and significant contract provision adjustments of £99.7m (2019: £20.0m) (see financial statements note 3 on page 139).

3 Net cash balance is cash and cash equivalents less interest-bearing loans and borrowings (before arrangement fees of £1.2m).

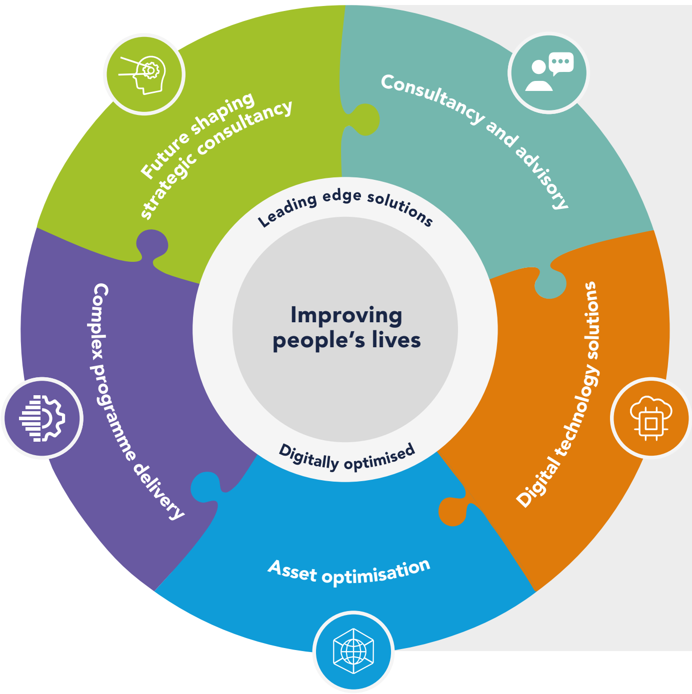
We improve people's lives by delivering responsible smart infrastructure solutions

What we do

We offer our clients leading edge solutions through five core services which cover the whole lifecycle of their assets: future-shaping strategic consultancy; consultancy and advisory; digital technology solutions; asset optimisation and complex programme delivery.

Why we do it

Costain's purpose is to improve people's lives by helping to: connect and keep the nation moving, keep water clean and flowing, power communities sustainably and keep people safe.

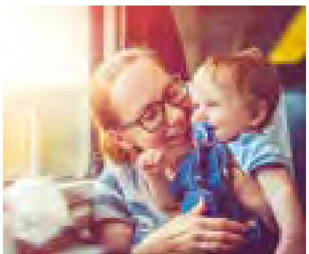


How we do it

We deliver integrated leading edge smart infrastructure solutions to meet national needs across the UK's transportation, water, energy and defence markets.

See pages 12 and 13 for our business model

Our markets



Transportation
We connect and keep the nation moving

See more on page 08

Water
We keep water clean and flowing

See more on page 09

Energy
We power communities sustainably

See more on page 10

Defence
We keep the nation safe

See more on page 11

See pages 06 to 11 for more information on our markets

Our Leading Edge strategy

Our Leading Edge strategy closely aligns our services to meet the changing needs of our blue-chip clients whose major spending plans are underpinned by strategic national needs, regulatory commitments, legislation or essential performance requirements.

Our strategic priorities

Our strategic priorities drive continued progress and differentiation and are linked directly to our Executive Board-sponsored implementation plan.

Assuring and enhancing our performance

Developing our skills and capabilities

Delivering innovative solutions

Leading as a responsible business

See pages 22 and 23 for more information on our strategy implementation

Delivered through our people

Our outstanding team, strong culture and embedded values underpin everything we do. Our people are essential to the success of our business and we are proud to have such a highly skilled, inclusive and experienced team.

The COVID-19 pandemic has fundamentally changed the way that we work. As we have adapted to the pressures of working during lockdown, the wellbeing of our teams has been at the forefront of our decision-making. Read more about our response to COVID-19 on pages 20 and 21 and about our purpose, values and culture on pages 62 and 63.

Positioned for future growth

The long-term, strategic nature of our client relationships and our positioning on key infrastructure spend programmes across our core markets provides us with a strong platform to accelerate the deployment of our higher margin services alongside our complex programme delivery.

Strategically aligned to meeting market priorities

- Focused on markets with increasing committed spend driven by the levelling-up agenda, decarbonisation and provision of essential services.
- Long-term investment plans driving sustainable market growth as a result of technological, demographic and environmental change.
- Well positioned on long-term infrastructure programmes across all of our markets.

Read more on pages 06 to 11

Long-term strategic relationships, client insight and domain knowledge

- Developed by working alongside clients as trusted advisors, understanding their challenges and desired outcomes to co-create the best solutions and deliver leading edge services.
- Leveraging 155 years working as trusted delivery partners across transportation, water, energy and defence.

Read more on pages 32 to 35

Repeat business

90%

Our people

- Focused, experienced management team driving Leading Edge strategy implementation.
- Broadening mix of skills and diversity across our workforce, with over 400 chartered professionals.
- Attracting and developing industry-leading talent, bringing a fresh perspective to our clients' challenges.
- Supporting 15 PhDs who collaborate with our projects to provide insight and innovation.

Read more on pages 50 and 51

Our employees

c 3,100

across the UK

Awards and recognition

Top 50 Employers for Women Consultants

Armed Forces Covenant

Race at Work Charter

Disability Confident

BSI Kitemark for Innovation Consultants

Our purpose is to improve people's lives and our vision is to be the UK's leading smart infrastructure solutions company

Financial strength

- Positive net cash position.
- Positioned for growth with strong momentum in new orders, a £4.2bn order book, new contracts and preferred bidder positions of £1.2bn and positions on some 60 major live frameworks, with 27 won in 2020.
- Strengthened balance sheet, enabling the Group to capitalise on the growing infrastructure market opportunities.

Read more on pages 36 to 39

Leading as a responsible business

- Responsible business priorities aligned to the United Nations Sustainable Development Goals.
- Committed to:
  - creating a greener future
  - ensuring Costain is a safe, inclusive and great place to work, where everyone can be at their best
  - enhancing the value that Costain contributes to society.
- Robust corporate governance and risk management processes.

Read more on pages 40 to 43

Order Book

£4.2bn

at 31 December 2020

Preferred bidder

£1.2bn

at 31 December 2020

Our Leading Edge strategy enables us to achieve our purpose and vision

A continually evolving market

UK Government recognises the critical role of infrastructure in supporting a growing and globally competitive economy and in decarbonising our environment. Reinforcing its commitment, UK Government has also stated that the infrastructure and construction sectors are vital to the recovery of the economy following the impact of COVID-19. As the graphic below shows, Costain is well placed to support UK Government in delivering its infrastructure ambitions across our markets.

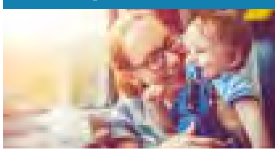
Our markets are underpinned by significant UK Government and regulated investment, including the National Infrastructure Strategy, the Ten Point Plan for a Green Industrial Revolution and Energy White Paper, the Defence spending review, Ofgem's commitment to RIIO-2 and Ofwat's commitment to AMP7, all of which are focused on delivering safer, better, greener, faster and more efficiently.

Costain position against UK major infrastructure spend programmes

Significant market opportunity

Our markets are underpinned by significant UK Government investment and regulatory commitments, including UK Government's Build Back Better roadmap for recovery and its commitment of over £600bn of gross public sector investment in infrastructure over the next five years.

Transportation



Spending Programmes

RIS2 – £27.0bn
£27.4bn

HS2 P1&2
£40.0bn

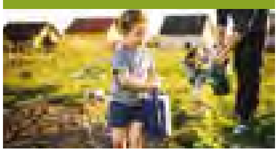
Network Rail CP6 (2019–24)
£53.0bn

Investment in local and devolved authorities
£20.2bn

Costain position

- Highways England Smart Motorways Alliance
- Highways England Regional Delivery Partnership
- HS2 Enabling Works
- HS2 S1 and S2 Main Works
- Network Rail CP6 – Gatwick Airport
- Network Rail Design Services Framework
- Lancashire County Council Preston distributor road
- East Sussex County Council highways services

Water



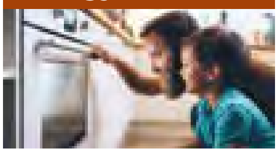
Spending Programmes

AMP7
£51.0bn

Costain position

- Anglian Water Strategic Pipeline Alliance
- Severn Trent Water capital delivery programme
- Southern Water capital delivery programme
- South Staffs Water consultancy and asset management
- Thames Water AMP7 PMO
- United Utilities Managed Service Provider
- Welsh Water innovation funding
- Yorkshire Water Technical Service Framework

Energy



Spending Programmes

Ten-point plan **Energy White Paper**
£12.0bn
stimulating significant private investment to 2030

RIIO-2
£30.0bn

Costain position

- South Wales Industrial Cluster
- Scotland Industrial Cluster
- SSEN microgrid
- U-Battery Developments Limited advanced modular reactor
- Cadent CMO

Defence

Spending Programmes

Defence Budget
£41.5bn

Defence Review 2020
£16.5bn
additional funding over 4 years plus **£5.0bn** of existing commitments

Costain position

- Dreadnought
- AWE
- Rolls Royce
- Babcock Devonport
- BAE

Bringing action to the consultancy market

2020 has been a year of gathering momentum for our consultancy business, building firm foundations on which we will continue to deliver growth.

We continue to lead the South Wales Industrial Cluster deployment project working with multiple partners to create a hydrogen economy, increase energy efficiency and avoid carbon emissions while exploring opportunities for Carbon Capture Usage and Storage (CCUS) and low carbon power generation to decarbonise industry in South Wales and support the green industrial revolution agenda. In addition, 2020 has seen Costain working with Highways England, Thames Water, Cadent, Yorkshire Water, TfL, First Group, Manchester Airports Group, Babcock and many more clients in a consulting capacity. Costain gained external recognition for its consulting work with the BCIA product innovation of the year award, WICE Recognition for Best Woman Consultant and nominations for five other members of our team. We were listed in the FT's Management Consultancy listings for the second year running.

See more online at
www.costain.com/what-we-do/

Evolving our digital offering

In 2020, we made good progress towards achieving our vision of being the UK's leading digitally enabled smart infrastructure solutions company.

We helped to reduce operating costs and save lives by making hundreds of remote pedestrian level crossings safer. Our own technology team developed a reliable solar powered, wireless, radar-based warning system called Meerkat. This will be deployed across the majority of Network Rail's remote level crossings in 2021.

Our digital technology capabilities continue to be focused around solving our clients' most pressing issues and helping them and our sector to make the changes required to design, deliver and operate digitally connected and data-rich national infrastructure. Our U-Route solution, which optimises the design process and improves project delivery certainty, won British Construction Industry award for Product Innovation of the Year.

2020 also saw us enhance our position as a key provider of digital advisory services to government by winning a place on the new G-Cloud 12 and Digital Outcomes and Specialists 4 (DOS4) frameworks where UK public sector organisations can directly procure hosting, software, advisory and support services.

See more online at
www.costain.com/what-we-do/

Transportation
We connect and keep the nation moving

We deliver major infrastructure programmes in line with the levelling up agenda for economic growth and which support the UK's decarbonisation ambitions. We have continued to deliver complex programmes which increase the capacity of the transport network, enhance the customer experience and improve journey times and safety.

Client need

Safe and seamless journeys; improving network capacity and air quality; increasing connectivity and data capture; transition to a low carbon future and lowering capital expenditure and maintenance costs.

As a specialist adviser and integrator of smart transport digital technology, asset optimisation and decarbonisation solutions, we have provided tailored solutions to regional and local transport operators to help make the UK's roads safer and greener.

We are positioned across several nationally significant infrastructure projects such as Highways England's Regional Delivery Partnership and Smart Motorways Alliance, the A14, HS2 and Crossrail. In addition, we continue to support devolved government programmes which deliver UK Government's levelling up agenda by offering increased economic growth, connectivity and productivity.

Improving national infrastructure by:

- increasing productivity and effectiveness in complex programme delivery
- assuring delivery by forecasting and mitigating the risk of harm on major schemes
- matching the pace of infrastructure-side technology to enable more efficient, safer and greener journeys
- making roads safer by developing, integrating and maintaining the next generation of digital message signs
- helping clients achieve their carbon reduction targets by making hydrogen fuel a reality for transport
- ensuring net positive biodiversity gain using leading edge geospatial technology
- maximising the socio-economic value of projects through implementing industry-leading social value initiatives
- supporting the transition to zero carbon transport.

Water

We keep water clean and flowing

We continue to provide leading edge, technology-based solutions to UK water utility companies across the lifecycle of their assets. In 2020 we were at the front end of clients' delivery strategies in AMP7 helping them to drive safer, faster, greener, better and more efficient capital programmes and asset operations.

Client need

Improved regulatory performance and customer service; lower water bills; digitisation of assets; increased asset resilience; environmental protection; carbon reduction and embedded social value.

Improving national infrastructure by:

- significantly reducing programme timeframes
- digitising existing assets to optimise performance
- minimising water usage and environmental impact
- delivering efficiencies through effective programme management and collaborative innovation
- offering better services to the client and delivering regulatory outcomes early
- ensuring zero interruption to supply to improve customer service.

Across the water sector we provide a broad range of integrated consultancy and digital services to drive the efficient optimisation of water and wastewater assets, transforming performance, enhancing resilience, reducing risks and minimising carbon emissions.

We continue to help water companies meet their net zero carbon commitments through innovation projects. For example, in collaboration with Welsh Water, we have been working on the Hy-Value project. This aims to convert sewage-derived biogas into zero emission fuel that could power Welsh Water's fleet of vehicles (as well as those belonging to local councils).

Energy

We power communities sustainably

We continue to work with industry, transport and energy utilities to shape the decarbonised energy systems of the future. These will safeguard security of supply and support the UK's journey towards net zero carbon, aligned with the UK Government's Energy White Paper and £12 billion Ten Point Plan for a Green Industrial Revolution.

Client need

Decarbonisation; decentralisation; enhancing efficiency; improving resilience and reducing cost of decommissioning legacy assets.

Improving national infrastructure by:

- decarbonising energy through innovative hydrogen and decarbonisation solutions
- enabling cost effective and large-scale capture, transport and storage of CO_2
- reducing capital expenditure and environmental impact of gas infrastructure
- improving security of supply of remote networks
- assuring delivery certainty for major asset optimisation and capital programmes
- enhancing energy efficiency of industrial processes and oil and gas infrastructure.

In 2020 we continued our important roles in the South Wales and Scotland industrial clusters. We looked at the infrastructure required for the development of the hydrogen economy, for large scale carbon capture, usage and storage (CCUS) and transport. We also demonstrated the feasibility of the concept of hydrogen 'deblending' for a first of its kind programme, bringing together all the gas distribution networks to collaboratively develop innovative hydrogen solutions that will decarbonise energy for heat, transport, industry and power generation.

We are collaborating to develop an advanced modular reactor (AMR) which is being funded as part of the Energy and Industrial Strategy's Energy Innovation Portfolio.

Defence

We keep the nation safe

We continue to successfully position as the consultant of choice for delivery of national strategic defence infrastructure programmes. Our services cover fully managed and strategic advisory services, backed by digital solutions which achieve improved value for money outcomes for our clients. We are leveraging 150 years of delivering complex programmes, our leading edge digital technology solutions, behavioural science work and P3M expertise to help clients transform performance of infrastructure investments.

Client need

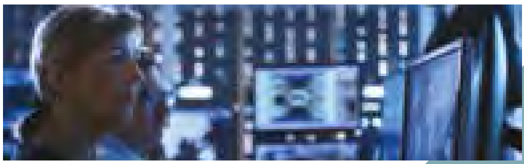
A trusted partner on complex, mission critical equipment programmes; improved value for money certainty; equipment programme continuity and change control; improved performance; security of data and reduction in through life costs of assets.

Spanning the full programme and project lifecycles we provide high value programme and project leadership and controls; advisory, risk, engineering and assurance; and digital services that help clients to optimise the performance of the most complex national strategic programmes, including our involvement in the Continuous At Sea Deterrent (CASD) and Defence Estates.

Achievements in 2020 include successful programme delivery for a key defence client with no schedule impact despite COVID-19, achievement of a prestigious Quality Award and introducing additional value through our digital services such as digital twin capability.

Improving national infrastructure by:

- enhancing cost certainty and minimising time delays through digitising programme controls
- improving performance of middle and senior management through P3M (technical and behavioural skills) continuing professional development
- risk resilience, improving performance and reducing costs of programme change
- more efficient operations and maintenance through improved forecasting and resource planning
- greater delivery confidence in strategic programmes through P3M transformation, design and implementation
- better and faster surveillance deployment through specialist technology engineering, supply and maintenance.



Aligning our services

Distinct business model

Five core services targeted at a blue-chip client base with non-discretionary, long-term spend across four key markets.

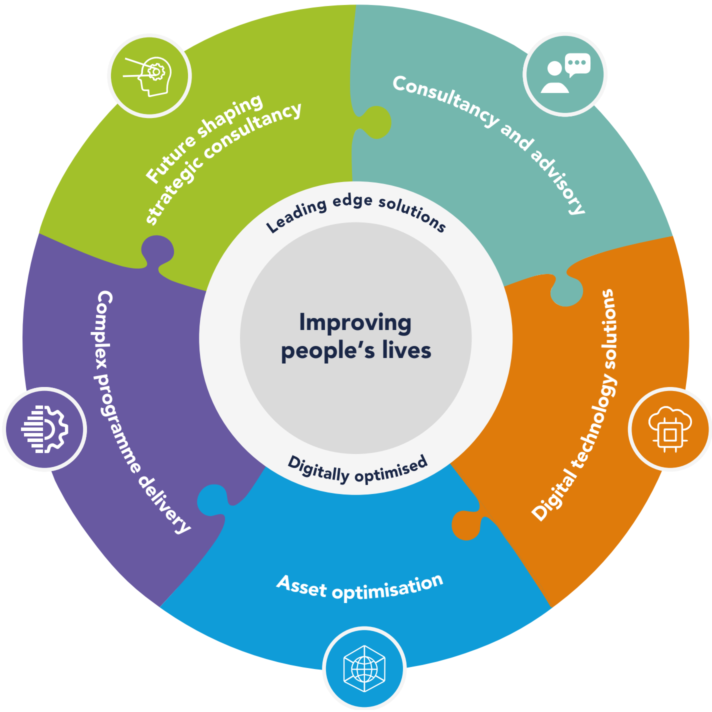
Our markets

Transportation
We connect and keep the nation moving

Water
We keep water clean and flowing

Energy
We power communities sustainably

Defence
We keep the nation safe



How we operate

Leading business responsibly
We focus on operating a sustainable business that creates economic, environmental and social value and delivers tangible benefits for all of our stakeholders.

Embedded values and culture
Our strong culture and embedded values underpin everything we do.

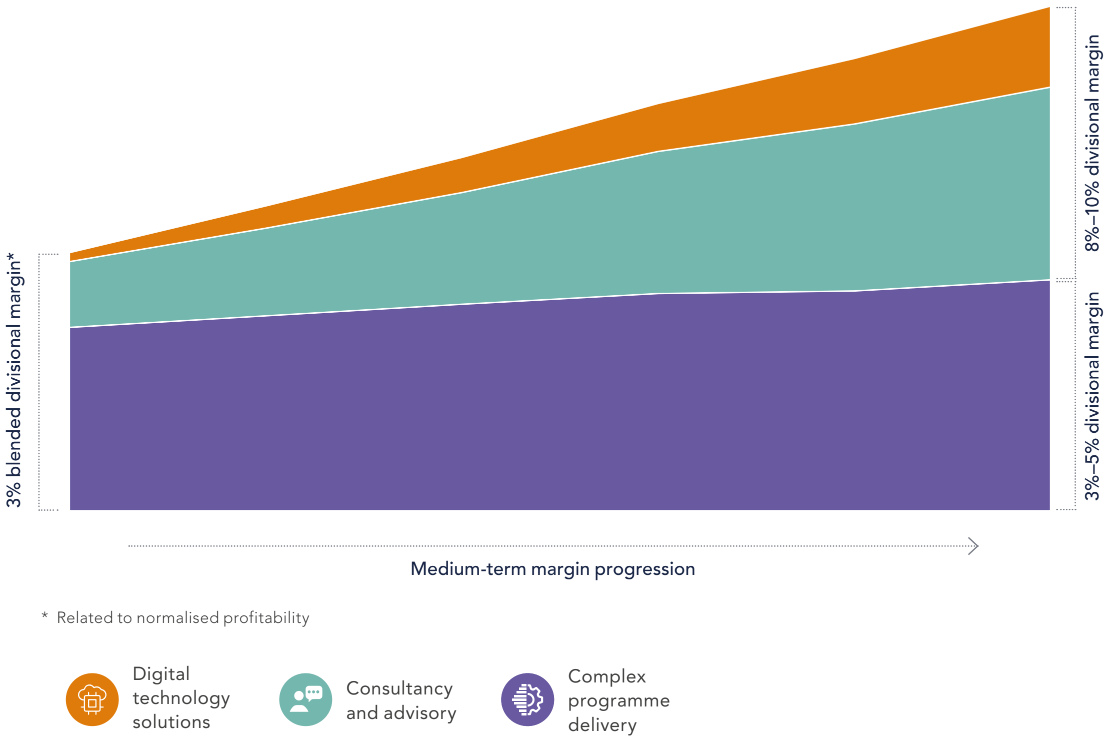
Robust corporate governance
We have rigorous policies and procedures and mandatory training to ensure we do things right first time.

Effective risk management
We have robust risk management processes which identify, manage and mitigate potential risks to protect the performance of the Group.

Our evolving service mix

Our strategy will ensure we remain a highly valued and cutting edge partner to our clients and supports improved profitability. We are targeting divisional margins of 6% to 7% over the medium term, aiming for 45% of our profitability being derived from our complex programme delivery and 55% from our integrated consultancy and digital services.

Implementing our Leading Edge strategy



* Related to normalised profitability

Our sources of competitive advantage

Long-term, strategic relationships and client insight
We develop long-term relationships with our clients, collaborating strategically at all levels and understanding their individual needs to deliver optimal solutions.

Benefits driven, leading edge services
We invest in research, innovation and technology to provide the leading edge solutions our clients need. Delivering solutions safer, faster, greener, better and more efficiently.

Outstanding reputation and diverse team
We are recognised for our outstanding delivery, technical excellence and our diverse, industry leading team.

Delivery pedigree
Our clients trust us to consistently deliver innovative solutions on time and on budget, achieving measurable outcomes which improve their business performance.

Chair's Statement

We have worked hard this year to manage the operational impact of COVID-19 and successfully adapted to maintain productivity while employing strict safety measures to protect our people, our teams and the communities in which we work.

We have reported an adjusted profit of £18.0m. Supported by the strength of our balance sheet following the successful capital raising, we have secured £2.3bn of new contracts and preferred bidder positions and positions on some 60 major live framework contracts, with 27 won in 2020. An increasing proportion of this work incorporates our broader service offering. This was a positive performance in the context of the challenges created by the pandemic and a clear demonstration of our strategic progress.

Our 2020 results also reflect £94.7m of significant charges from two long-standing contracts in relation to Peterborough & Huntingdon and the A465 road construction (both disclosed at the half-year) and a one-off charge of £5.0m in relation to closing out a legacy contract (ASF South). A number of lessons have been learned and we have made further organisational changes and improved our governance and controls.

These measures combined with the momentum we are seeing in our broader client offering provide a robust platform to improve profitability and deliver long-term value for our shareholders.

Board and people

In 2020, there have been several changes to your Board. On 19 June 2020, Bishoy Azmy was appointed as non-executive director and representative of ASGC, which has a 15.15% shareholding in the Company following completion of the capital raising. Helen Willis was appointed chief financial officer in November, replacing Anthony Bickerstaff who had served in that role for 14 years. Tony Quinlan was appointed to the Board as a non-executive director in February 2021 and will succeed Jane Lodge as chair of the Audit Committee at the conclusion of the Company's 2021 Annual General Meeting (AGM) to be held on 6 May 2021. As previously announced, Jane Lodge will step down from the Board after nine years of service at the conclusion of the 2021 AGM.

People are essential to the success of our business and we are proud to have such a highly skilled and experienced workforce of c3,100 people.

I would like to pay tribute to our people, clients and supply chain for their efforts to look after one another and to protect our business, each other and the communities we serve during this pandemic.

Environmental, social purpose and governance

Operating responsibly and sustainably is a business imperative for Costain and the safety and wellbeing of our people, our clients, partners and the general public is our highest priority. In line with the United Nation's Sustainable Development goals, we deliver on our purpose to improve people's lives, helping to build a sustainable future and ensuring that Costain is a safe, inclusive and great place to work.

We have maintained a world-leading safety performance, with only 10 reportable accidents occurring in over 31m hours worked. Our accident frequency rate (AFR) of 0.03 continues to lead the industry and I am pleased to report that we had no significant environmental incidents in 2020.

In February 2020 we set out our Climate Change Action Plan to deliver low carbon solutions to every client by 2023 and to be net zero by 2035. An early milestone this year was the introduction of electric vehicles to our car fleet with a target of achieving net zero emissions from this source by 2023. In addition, we have been working with our sites and supply chain to reduce plant emissions by 20%, sharing data and lessons learned to tackle this industry emissions hot spot.

Costain was included in the FTSE4Good index for the first time, demonstrating our strong environmental, social and governance (ESG) practices.

Dividend

The Group does not recommend a dividend for 2020. The Board recognises the importance of dividends to shareholders and will continue to review the reinstatement of future dividends in the light of the Group's performance, cash flow requirements and the importance of maintaining a strong balance sheet.

Outlook

Looking ahead, our infrastructure markets remain strong, supported by significant long-term investment programmes underwritten by government policy, regulation, legislation and critical national need. The UK Government has set out the critical role of new and modernised infrastructure in supporting the levelling-up of a growing and globally competitive economy, and in decarbonising our environment.

Our order book stood at £4.2bn at the end of the year with a good level of secured revenue for 2021 at c£1bn. I am confident that Costain is in a strong position to capitalise on the opportunities in front of us and to grow our profits in 2021.

Dr Paul Golby CBE
Chair

Leading business responsibly

See our Responsible Business Commitments on page 28

Experienced management team with a far reaching skill set

See our Board of Directors on pages 50 and 51

A Board committed to the highest standards of governance

See Board Leadership on pages 58 to 61

In responding and adapting to COVID-19, our priority has been ensuring the safety and wellbeing of our people and the communities in which we work, as well as protecting our business and continuing to serve our clients. We are proud of how well everyone has adapted to achieve this and would again like to pay tribute to our people, partners and clients who have done everything they can to look after one another and to do the right thing.

Last year was an exceptionally challenging year as we worked hard to successfully manage the operational impact from COVID-19 and maintain effective operations for our clients. We also completed our capital raising which strengthened our balance sheet and was a positive catalyst for a number of new contract wins.

We finished the year with an adjusted operating profit of £18.0m, a positive performance given the challenges created by the pandemic and one we are confident we can build on this year.

These results reflect £94.7m of significant charges from two long-standing contracts in relation to Peterborough & Huntingdon (P&H) and the A465 road construction (both disclosed at the half-year) and a one-off charge of £5.0m in relation to closing out a legacy contract (ASF South). Clear lessons have been learned from these events and we have taken decisive action to prevent such issues reoccurring. We have strengthened the senior leadership team, introduced greater accountability from top to bottom, improved our governance and controls and completed a root and branch exercise to identify and manage potential contract risk. As a result, Costain is a more resilient business and one which I am convinced will move forward with confidence to capitalise on the many opportunities ahead of us.

The infrastructure markets in which we operate have remained strong and this is reflected in the level of new work we have won. Supported by the strength of our balance sheet following our capital raising last May, we secured £2.3bn of new work awards including £1.2bn of preferred bidders positions last year.

Our order book stood at £4.2bn at the year-end and we have a good level of secured revenue for 2021 at c£1.0bn (compared to c £940m at FY2019). We will also benefit from having positions on some 60 major live frameworks, with 27 won in 2020.

Our markets are supported by significant long-term investment programmes underwritten by UK Government policy, regulation, legislation and critical national need. The UK Government has committed to further investment to support its drive to level up economic growth and to meet decarbonisation commitments. Crucially, we have positioned our offer to meet the changing needs of our clients through our complex construction programmes, consultancy contracts and digital performance improvement unlocking the opportunity to deliver safer, faster, greener, better and more efficient solutions.

As well as taking advantage of these market opportunities, improving our business performance is paramount. Our focus on delivering projects to plan, managing our risks effectively, prioritising cash generation and continuing our efficiency programme are the bedrock to delivering the improved business performance we expect in 2021.

Costain is committed to leading on conducting business responsibly and we have aligned our purpose of improving people's lives to the United Nation's Sustainable Development Goals. Our focus areas are creating a greener future, working towards being net zero by 2035, ensuring Costain is a safe, inclusive and great place to work where everyone can be at their best and enhancing the value that Costain contributes to society.

"Our priority has been ensuring the safety and wellbeing of our people and we are proud of their response to COVID-19."

Alex Vaughan Chief Executive Officer

Trading and financial performance

Results

Statutory reported Group revenue for the year was £978.4m (2019: £1,155.6m). The reduction in revenue results from a lower level of capital project activity, in line with our planned strategic change in mix of services and the revenue adjustment on the A465, P&H and ASF South contracts.

Statutory reported loss before tax was £96.1m (2019: loss of £6.6m) and statutory reported loss per share was 36.7 pence (2019: 2.3 pence).

Adjusted operating profit was £18.0m (2019: £37.9m) and adjusted basic earnings per share were 5.8 pence (2019: 25.1 pence). The adjusted operating profit reflects the estimated £9.2m impact of COVID-19, as well as the impact of an extensive contract review during the year assessing end-of-life assumptions and changes in margin mix and volume.

Order book

We have maintained our strong order book at £4.2bn (as at 31 December 2020) with over 90% being repeat orders, of which £1.1bn is new contract awards and extensions. In addition, we have a strong preferred bidder position on contracts worth over £1.2bn (including £1.0bn in respect of the allocated work under the Highways England Smart Motorway Programme) and have secure positions on some 60 major live frameworks, with 27 won in 2020. The level of tendering activity across our target markets remains high.

Operational changes

Leadership team

We have made further significant changes to bolster the Executive Board over the past year. Helen Willis joined as chief financial officer in November 2020, Sue Kershaw was appointed managing director of the transportation division in March 2020 and Sharon Harris was appointed general counsel and company secretary in September 2020. Other new members of the leadership team completed their first year, including Nathan Marsh in the newly-created position of chief digital officer, Maxine Mayhew as managing director of the natural resources division and Catherine Warbrick as human resources director. These changes have brought a refreshed approach and diversified the experience of our executive management team, placing us in an even stronger position to take advantage of the market opportunity open to us.

Improved contract risk management

The Group's contract selection, tender and contract management processes and behaviours have been enhanced over the past 18 months, resulting in lower contract risk and better cost management throughout the lifecycle of our projects. See more on the changes we have made and our strategy implementation progress on page 22.

Response to COVID-19

In responding and adapting to COVID-19, our priority has been ensuring the safety and wellbeing of our people and the communities in which we work, as well as protecting our business and continuing to serve our clients.

At the start of the pandemic, we took decisive actions to reduce our cost base, including management taking a reduction to their salaries. Overall, in 2020 the estimated financial impact of COVID-19 was mitigated to a reduction in our profitability of £9.2m. The Group received £2.0m from the COVID-19 Job Retention Scheme and also took the decision to defer VAT of c£10.0m under an agreed UK Government scheme.

In the second half of the year we adapted and maintained strong and effective safety measures which ensured the effective operation of our business across every contract. We remain alert to the continuing challenges and will ensure that we maintain the necessary safety measures in place on all our contracts to both keep our teams safe, and to maintain our productivity.

Read more about our COVID-19 response on pages 20 and 21.

Our markets

Long-term investment plans are shaping the increased investment in the UK's strategic infrastructure to meet key national priorities. To meet and benefit from these key infrastructure priorities for the UK, Costain has positioned itself as one of the UK's leading smart infrastructure solutions companies operating across the transportation, water, energy and defence markets supporting the delivery, enhancement and operation of the UK's critical infrastructure.

These markets have significant long-term investment programmes underwritten by UK Government policy, regulation, legislation and critical national need. They are evolving rapidly and positioned for accelerated growth responding to population increases, climate change, customers' enhanced expectations of improved service, ageing assets and the need for greater efficiency and performance including a growing adoption of technology. All are resulting in Costain's clients changing their business strategies and investment priorities.

UK Government investment

UK Government has set out the critical role of new and modernised infrastructure in supporting the levelling up of a growing and globally competitive economy and in decarbonising our environment.

National Infrastructure Strategy

In response to the National Infrastructure Commission's Infrastructure Assessment, the UK Government published its National Infrastructure Strategy in November 2020, committing to the investment of £27.0bn in economic infrastructure in 2021–22.

Energy White Paper and the Ten Point Plan

In December 2020, the UK Government published its Energy White Paper which provides further clarity around the Prime Minister's Ten Point Plan and introduces a strategy to achieve it.

Defence spending

In November 2020, the UK Government announced the biggest programme of investment in British defence since the end of the Cold War with a £16.5bn increase above its 2019 manifesto commitment to be spent over the next four years. This includes a multi-year settlement to allow the Ministry of Defence to invest in next-generation military capability, building on the previously pledged increase in defence spending.

Devolved authorities

UK Government is investing in numerous local infrastructure programmes in addition to its Levelling Up fund. These programmes aim to increase connectivity, upgrade local road and rail networks and strengthen local environmental protections with record levels of investment in strategic roads, rail, broadband and flood defences.

Regulated and private investment

In addition to UK Government's commitments, the scale of private sector investment in infrastructure is also increasing:

- in the water market, the regulator Ofwat has approved investment programmes for the water companies amounting to £51.0bn over the next five years to improve water quality standards, supply resilience, decarbonisation and efficiency of operations; and
- in Energy, UK Government estimates its Ten Point Plan will stimulate further significant private investment by 2030 across energy, buildings, transport, innovation and the natural environment. In addition, Ofgem has confirmed its major investment programme into Britain's energy infrastructure from 2021–26 (RIIO-2) with £30.0bn upfront funding to deliver a clean and reliable energy system over and above the Ten Point Plan.

Transforming performance

UK Government is also demanding that our industry transforms the way infrastructure programmes are delivered in the UK to be faster, greener and better. This will be achieved through wide-ranging reforms improving the way projects are chosen, procured and delivered, and the greater use of cutting-edge construction technology. Costain was directly involved in creating, and is a signatory to, the UK Government's Construction Playbook which sets out its proposals for this transformation.

Strategy and evolution of our business

We have made good progress implementing our Leading Edge strategy, aligning our services to meet the changing needs of our clients across the markets which are benefiting most from long term strategic investment programmes.

As we broaden our offer from purely complex construction to one which also incorporates more innovative consultancy and digital capabilities, we become increasingly valuable to our clients, resulting in a higher level of profitability while at the same time reducing our overall risk profile.

The progress we have made to date, in particular the additional work we have secured over the past 18 months gives us confidence that we will achieve our medium-term strategic objective of 6%–7% divisional margins with 55% of profits derived from our higher margin services.

The growth of the business and increase in margins is being delivered through:

Cutting edge complex construction programme delivery

Costain continues to build a strong position on the strategic long-term (5 to 10 year) capital investment programmes for our clients. Through these programmes we are implementing improved ways of working; delivering safer, faster, greener, better, and more efficient construction solutions, both reducing risk and increasing margins in line with our targets.

Value and implementation oriented consultancy

Leveraging our programme delivery skills and expertise we are securing new work as a consultant and advisor, unlocking value for our clients, and ensuring the solutions are delivered effectively. These higher margin consultancy frameworks and contracts, with now over 1,000 consultants deployed, will deliver margins within our targeted range.

Digital performance improvement

Through leveraging our client relationships, insight, and digital expertise we are improving performance and productivity by delivering digital solutions including improved ways of working, automated services and new technology centric solutions, which will deliver margins in our targeted range.

Details of the contracts secured and being delivered are included within the Operational Review on pages 32 to 35.

As part of our strategy to improve profitability, we are also on track to meet our operational efficiency targets aimed at delivering £20.0m of annualised efficiencies by the end of 2024. We will be over half-way to achieving this target at the end of 2021, which will enhance our competitiveness and business efficiency, with some of these efficiencies shared with our clients as well as reinvesting in the development of our business.

Everyone at Costain is focused on ensuring all projects are delivered to plan and project risks are managed effectively. This absolute focus alongside the delivery of our strategic plan is the bedrock to delivering the improved performance we expect next year and over the years ahead.

People

Our people are essential to the success of our business and we are proud to have such a highly skilled and experienced employee base of c3,100 people, including over 400 chartered professionals with a diverse range of capabilities and c80 graduates and c115 apprentices on a structured development programme.

Diversity and inclusion remain a business imperative for us and we were very proud to be named as a Times Top 50 Employer for Women for a third year running. During the year, we stood in solidarity with our black colleagues, showing support for the Black Lives Matter movement. We signed up to the CBI 'Change the Race Ratio' and Business In the Community 'Race at Work Charter'. In addition, we are a proud signatory of the Valuable 500, a global initiative to raise awareness of disability inclusion and commit businesses to action on this important topic.

Environment, social purpose and governance (ESG)

Costain is committed to leading on conducting business responsibly and this is a business imperative for the Group. The safety of our people and the general public is our number one priority. We have maintained a world-leading safety performance, with only 10 reportable accidents occurring in over 31m hours of work. Our accident frequency rate (AFR) of 0.03 continues to lead the industry and I am pleased to report that we had no major environmental incidents in 2020. In February 2020 we published our Climate Change Action Plan which set out the Group's commitment to deliver low carbon solutions to every client by 2023 and to be net zero by 2035 at the latest without offsetting.

See more on our Responsible Business Commitments and Climate Change Action Plan on pages 28 to 30.

In delivering our Responsible Business Commitments, the Costain business was included in the FTSE4Good Index for the first time, demonstrating our strong ESG practices.

Outlook

Looking ahead, while mindful of the macro-economic uncertainties, we are confident in delivering growth in profits and margins this year. Costain is in a strong position with a high volume of secured long-term programmes and a positive market outlook, in particular the UK Government's commitment to invest in infrastructure to support the levelling of our economic activity and decarbonisation of our environment.

Alex Vaughan
Chief Executive Officer

We have responded effectively to the COVID-19 pandemic

Since the onset of COVID-19 our priority has been to ensure the safety and wellbeing of our people, clients and the communities in which we operate. We have protected our business while continuing to work on critical national infrastructure programmes.

Our resilience and outlook

The Group's contracts continue to operate productively through the COVID-19 pandemic with enhanced safety measures on construction sites and colleagues working remotely. Our offices have remained closed for the majority of the year. However, when national guidelines have allowed, we have been pleased to welcome colleagues unable to work remotely or who were experiencing wellbeing issues back into our offices under COVID-19-safe conditions.

Our construction sites have remained operational. They are now operating at normal levels of productivity across the Group compared to pre-COVID-19 levels. We remain alert to the continuing challenges that the ongoing pandemic is placing on our people's safety and wellbeing and on our operations. Overall, in 2020 the estimated financial impact of COVID-19 was mitigated to a reduction in our profitability of £9.2m. The Group received £2.0m from the COVID-19 Job Retention Scheme and also took the decision to defer VAT of c£10.0m under an agreed UK Government scheme.

Key COVID-19 impacts and mitigating actions

Impact: disruptions to productivity	Actions taken
Paused activities on several projects	Furloughed 360 employees, majority of whom have returned to work by 1 Sept 2020
Restrictions to personnel on site due to social distancing requirements	£2.0m recovered through Job Retention Scheme to 1 Sept 2020
Delays to the award and start of new contracts	PAYE and VAT deferred (PAYE paid July 2020, VAT payable from March 2021)
Additional costs for maintaining social distancing and safety equipment	No UK Government loan schemes used
Costs of re-planning activities to new operating procedures	Salary reductions of 10%–30% for three months to 30 June 2020

Safeguarding our workforce and supporting our stakeholders

Doing the right thing by our people, our clients, society and protecting our business has guided our decision-making during COVID-19. Our Executive COVID-19 task force was formed to direct our response, supported by our COVID-19 steering group. These have been pivotal in leading our successful response to the pandemic and in enabling us to continue to deliver services for critical national infrastructure programmes. These continue to operate.

Our Workforce

Protecting the health, safety and wellbeing of our people is of paramount importance.

- Our robust digital infrastructure enabled us to seamlessly transition to working remotely and support this throughout the year.
- Behavioural approach to safety and wellbeing which has enhanced our ability to keep people safe and well. 92% of our colleagues agree that Costain has taken the right steps to secure their wellbeing while on site.
- Every contract and department has developed and implemented a thrive plan to enable our teams to perform at their best and provided our line managers with training on managing in a virtual world.
- Our leadership impact days in April and September focused on wellbeing, working from home and early lessons learned from our response to the pandemic.
- We set up a COVID-19 intranet portal which was updated daily with key information and FAQs for all staff. This became a lynchpin of communication, supplemented by an active social media group for furloughed staff and weekly communication drop-in sessions for the Costain leadership group, where challenges and concerns were heard and shared.

Our Shareholders

We acted decisively to mitigate the impact of COVID-19 on our business and to update our shareholders on our performance.

- Adapted our site operating procedures quickly and in consultation with industry and clients to ensure our sites could get back to operating productively.
- Implemented salary reductions between 10%–30% for three months to June 2020.
- Issued a market update on 31 March 2020 on the impact of COVID-19. Our interactive, virtual trading update in August provided further information to our shareholders on how Costain had reacted to the pandemic, and the on-going impact on our operations.

Our Clients

We responded immediately to our clients' needs during the pandemic.

- Set up a rapid response microsite offering targeted COVID-19 services to support our clients.
- Our project directors liaised closely with the Costain COVID-19 steering committee and their client leads to ensure our sites were adapted to allow safe social distancing. We used innovative solutions like the social distance watches on Thames Tideway.
- Pivoted from in-person site visits to virtual tours and engagement programmes across our projects.

Our Suppliers

We worked hard to support and engage with our supply chain throughout the pandemic.

- In April 2020, our behavioural safety director, Alan Cheung, delivered a practical briefing to our supply chain on how to achieve social distancing on site.
- Our supply chain conference in September 2020 was held virtually for the first time, with a focus on communication and collaboration during the ongoing uncertainty resulting from the pandemic.

Communities and Environment

Throughout the pandemic, we continued to take positive action to support our communities.

- Supported Business In The Community with their National Business Response Network, linking our supply chain with community needs. In London we provided over 10,000 face masks to a variety of community organisations.
- Costain military reservists were called up to support the COVID-19 response, helping set up a Nightingale hospital.

Implementing our Leading Edge strategy to align with our clients' changing needs

Our Executive Board-sponsored implementation plan is driving change through our business, aligning our services to meet the changing needs of our clients and transforming how we deliver those services.

Adapting our contract risk management processes and driving operational excellence

The Group's contract selection, tender, contract management processes and behaviours have been enhanced over the last 18 months, resulting in lower contract risk and better cost management throughout the lifecycle of our projects. In reassessing our contract selection criteria we have decided not to pursue one-off energy EPC contracts, focusing instead on long term investment programmes.

To enhance tender governance we have updated policies for commercial expectations and risk appetite for all new contracts, including reducing the acceptable level of downside risk and increasing the minimum level of acceptable profit for all new contracts. We have also implemented a five-gated approval process prior to signing any contract, including independent risk and assurance review prior to target cost and contract conditions approval.

In addition, we have implemented our 'Operational Excellence Model' on all new contracts and existing long-term frameworks. The monitoring and administration of scope of works changes to identify and escalate potential cost increases at an early stage has been enhanced, including the rigour of monthly reviews of all contracts in a standard and mandatory format, and detailed measurement of work in progress and cash collection. Our Smart Delivery Platform supports the consistent delivery of our operational excellence model across our projects. This positions our contracts to maximise productivity through digitisation and further improve access, development, accuracy and speed in the use of data to enhance the pace of delivery and quality of our projects.

See how our principal risks link to our strategic priorities on pages 42 and 43

Strategic priorities

Assuring and enhancing our performance

Drive best in class productivity and enhance operational performance in all service lines across all projects through our Operational Excellence Model (OEM). Continue to enhance and increase our own efficiency through automation and digitisation of our internal processes, and to strengthen our contract governance.

Driven by our implementation workstreams

- **Leading Edge delivery**
- **Increased Competitiveness**

2020 progress

- On track with annualised efficiencies savings from both OEM roll-out and expansion of robotic automation processes (which contributed to c28,000 hours saved across the business).
- Group wide focus on strengthening contract governance across all contracts and services.
- Embedded our Supplier Relationship Management system to further streamline onboarding and pre-qualification questionnaire processes.

Key Performance Indicators for 2021

- £12m annualised efficiencies.
- Margin progression across both divisions c3.5%–4%.
- Complex Programme Delivery: All new secured contracts delivering 3%–5% divisional margins.

Developing our skills and capabilities

Develop our teams to create a culture where everyone searches for opportunity to broaden our service offering, achieving excellence through our capabilities and leveraging our full capability at every opportunity.

- **Unlocking our capability**
- **Building a sales culture**

- Increasing work winning investment spent on higher margin service offerings.
- Embedded our digital sales leads who helped secure key wins such as the digital twin solution for Anglian Strategic Pipeline Alliance contract.
- Restructured our transportation divisional leadership to present an integrated approach to market opportunities and more closely align with our clients' needs.

- Secure two further Delivery Partner programme positions and four digital gamechangers.
- 40% of profits from higher margin services.

Delivering innovative solutions

Become the UK's leading smart infrastructure solutions company. Provide digital technology solutions across three core offerings: digital delivery, digital assets and digital systems integration. Promote and ensure transparency of our enhanced offering to the market and our internal and external stakeholders. Shape and support new solutions in emerging markets with innovative thinking.

- **Accelerating digital solutions**
- **Positioned for greater shaping**
- **Turning reputation into value**

- Implementing a new CRM system to improve client and sales intelligence.
- Awarded BSI Kitemark for Innovation.
- Implemented common sales operating model unlocking increasing levels of profits from our integrated consultancy and digital services.
- Secured leading roles in the future decarbonisation of the UK (see more on page 35).

- Secure new consultancy operation and innovation funding with clients.
- Increase our digital sales order intake.

Leading as a responsible business

Continue to prioritise safety, health and environment through our WiiSE (wellbeing, safety and environment) strategy, inclusion strategy and responsible business commitments, allowing our team to be at their best every day.

- **Being at our best**

- Launched Climate Change Action Plan setting out our path to net-zero carbon by 2035 (see more on page 30).
- Launched responsible business commitments demonstrating our alignment with the UN Sustainable Development Goals.
- Listed in FTSE4Good Index for the first time.
- Launched our Shadow Leadership Programme, bringing together a diverse and talented group to work alongside and challenge our digital and consultancy leadership groups.

- Reduce plant idling by 20% and introduce greener company cars to achieve a 20% CO_2 reduction.
- Support 100 disadvantaged young people and 100 under represented people to enhance their job ready skills.

Leading responsibly for all of our stakeholders

Leading as a responsible business

We deliver on our purpose to improve people's lives and build a sustainable future by making positive contributions to society.

Operating as a socially responsible business is integral to everything that we do. To be leading edge, we need to be resilient to change and we are committed to working with all of our stakeholders to ensure that we are sustainable for the future.

The Board and Executive Board of Costain have overall accountability for responsible business related activities and for ensuring that policies and strategies are aligned with our wider business objectives.

They also lead by example and ensure that Costain's success is delivered responsibly.

We have leadership groups that report our responsible business performance to the Board and hold direct responsibility for the implementation and delivery of policy across the organisation.

It is our policy to operate responsibly and with high ethical standards, particularly with regards to human rights issues. We take a zero tolerance approach to corruption and bribery, and we have an independent whistleblowing process in place to ensure we maintain high standards in all areas. Compliance with our anti-bribery policy is reviewed on an annual basis by all relevant officers, employees and partners and associated persons within our supply chain.

Our key stakeholder groups

Workforce
Our people are our most valuable asset. We rely on their skills, experience, knowledge and diversity to deliver our purpose to improve people's lives.

Shareholders
Our shareholders' views inform our decision-making and it is important that they understand our strategic ambitions and priorities.

Clients
Understanding our clients' changing requirements is fundamental to our success. We support our clients by offering them solutions to meet their evolving needs.

Suppliers
Our suppliers are key to our ability to deliver leading edge solutions for our clients. It is important we understand each other's cultures and methods of business.

Communities and Environment
We value the opportunity to engage with our local communities across all of our projects. We generate social value as a result of our work in our local communities.

Making a positive contribution to our environment and tackling climate change are central to our operational practices.

See pages 26 and 27 for how we engage with our stakeholders

Aligning our strategic priorities and key stakeholder groups

Assuring and enhancing our performance

ensures we remain competitive by increasing our own efficiency and drives best in class productivity across our projects for our clients.

Developing our skills and capabilities

allows us to leverage our full capability at every opportunity, developing our teams and individuals in a way which supports their own interests and development paths.

Leading as a responsible business

sees us prioritising the wellbeing and safety of our people, maintaining an inclusive culture and improving our natural environment for the benefit of all of our stakeholders.

Delivering innovative solutions

allows us to meet our clients' changing needs and drives resilience through our business model, enhancing our offering across our markets.

What matters to our stakeholders

We are committed to identifying and addressing the material sustainability issues that affect Costain and our stakeholders.

Stakeholder engagement survey

To ensure that we focus on the big issues that matter to our stakeholders, we conduct a stakeholder materiality assessment every two years. An assessment was conducted in 2019, exploring issues that can affect and be affected by our operations and through our value chain. Many of these issues align with the UN Sustainable Development Goals (SDGs) and all require Costain to be a responsible business.

In 2020 we launched our Responsible Business Commitments developed from the feedback gathered from our materiality assessment. Our Responsible Business Commitments set out the 2030 sustainability goals for Costain and align them to the UN SDGs, creating a clear linkage to the priority issues of our stakeholders. Read more about our Responsible Business Commitments on page 28.

Material issues for our stakeholders

In addition to our stakeholder engagement survey, we maintain a continual programme of stakeholder engagement through face to face meetings, surveys and desktop studies to understand the issues that they currently face and the risks that they see in the future.

In 2020 our stakeholders placed employee and community wellbeing as their priority focus, a direct impact of COVID-19. Other priorities included racial equality in response to the Black Lives Matter protests, climate change, carbon reduction and social value. Social value in particular is an umbrella term for many pressing social issues, such as the creation of employment outcomes, supporting the COVID-19 recovery effort and mitigating its ill effects on the wellbeing of society.

Engaging with our stakeholders

Our commitment to stakeholders

We set out on page 24 our key stakeholder groups and here we detail how we engage with each of them. Each stakeholder group requires a tailored engagement approach to foster effective relationships. By understanding our stakeholders and listening to their views and feedback, we can factor into Board discussions the potential impact of our decisions on each stakeholder group and consider their needs and concerns.

The information included in the table to the right and on pages 66 and 67 of the Corporate Governance Report (Principal decisions), show how the directors have performed their duty under Section 172 Companies Act 2006, having regard to various stakeholder factors.

Signed by the Board, 16 March 2021

Workforce

How did we engage with them?

2020 brought unprecedented challenge to staying connected. To ensure we remained connected with our workforce, we employed a number of engagement methods:

- For our COVID-19 specific engagement, refer to the briefing on pages 20 and 21.
- Our twice yearly leadership impact days went virtual, as did our annual roadshow and digital leadership day.
- Our site visits also went virtual, with our leadership team 'attending' a number of our projects via virtual platforms.
- We conducted wellbeing pulse surveys.

See pages 54 to 57 for how we gave our Board first-hand insight into the successes, concerns and challenges of our people.

What did we talk about?

- There was unsurprisingly a strong focus from our workforce on protecting mental health and supporting flexible working throughout the pandemic. Our employees wanted us to share best practice for working from home and on site.
- Our employees also wanted to talk about the Black Lives Matter movement which dominated headlines in early 2020.
- Future working arrangements were also a focus, particularly safety on sites.

How did we respond?

- Both of our leadership impact days focused specifically on promoting mental health and wellbeing and sharing best practice for working from home. Feedback from colleagues suggested that being able to share challenges with each other and talk about how working from home was impacting them was a positive experience. This resulted in our processes in this area being revised.
- Our Religion, Ethnicity and Cultural Heritage network hosted a 'Let's Talk about Race' session supported by our Group HR director, managing director – natural resources and one of our non-executive directors, Jacqueline de Rojas. This provided a safe space for colleagues to learn about race in the workplace.
- As a result of employee feedback, we ran the 'You spoke we listened' campaign organised around five Group-wide themes. See page 55 for more information.

Shareholders

How did we engage with them?

We engaged with our large shareholders via our brokers in respect of the capital raising completed in May 2020.

Due to UK Government restrictions we were not able to invite shareholders to the AGM in June 2020 in person, but we offered a facility for shareholders to ask questions of the directors and vote before the meeting, as we also did for the EGM to approve the capital raising.

We wrote to our largest shareholders on two occasions in 2020, once in relation to the remuneration policy to be proposed at the 2020 AGM and secondly in relation to the grants of our LTIPs to executive directors.

The Chair met separately and virtually with a number of large shareholders in September to discuss issues facing the Company.

What did we talk about?

- Prior to the initial announcement of our intention to raise capital, we sought market feedback on the proposal from our largest shareholders and some prospective new shareholders. Then, prior to the announcement on 7 May 2020 of the final form of the capital raising, we engaged with shareholders, via the brokers, on the book build to secure guaranteed funds.
- We talked to large shareholders throughout the year in relation to announcements of results, trading and contract updates, leadership changes and executive remuneration.
- Improving our risk and governance processes.

How did we respond?

- The amount proposed to be raised in the capital raising was largely determined by the level of support from shareholders when we engaged with them early in the planning process. As part of the capital raising, we also welcomed ASGC as a shareholder of 15.15% of the Company.
- We took on board the comments of large shareholders when finalising the remuneration policy put to shareholders for approval at the 2020 AGM.
- We were mindful of shareholder sentiment and the overall shareholder experience when we revised the EPS target and reduced the quantum of awards for the 2020 LTIP.

Clients

How did we engage with them?

We work hard to maintain close relationships with our clients, ensuring we gather regular feedback and deliver on our promises. Additionally we conduct client satisfaction surveys which help us to manage our performance. In 2020 we had a client satisfaction score of 84% (2019: 86%).

Throughout 2020 we used digital means to keep in contact with our clients, supporting virtual site visits and inviting them to attend and contribute to our annual leadership day and SHE behavioural management conferences.

Equality, diversity and inclusion has been high on our clients' and our agenda this year, and we have actively engaged on this topic.

See pages 56 and 57 for more detail on how our Board engaged with our projects and clients.

What did we talk about?

- Digital solutions such as thermal cameras to maintain safe operating conditions in response to the COVID-19 pandemic.
- COVID-19 controls on site and managing the wellbeing of the workforce.
- Best practice and lessons learned in relation to diversity, inclusion and equality in the workplace.
- How we can best engage with clients to understand their needs.

How did we respond?

- In our transportation sector, client director roles have been created to more directly address our clients' specific needs.
- Our employee networks now have project representatives who share best practice with our clients and partners.
- Following positive feedback from both clients and employees who participated in our leadership impact days and annual roadshow, we are aiming to further increase client involvement in these activities in 2021.

Suppliers

How did we engage with them?

Costain has a dedicated supply chain management team responsible for our supply chain relationships. Our supply chain managers had to adapt in 2020 and engage with our suppliers virtually.

Our supply chain conference was delivered digitally this year and was hosted by David Taylor, our Group commercial director.

We provided webinars for our supply chain to engage with and understand our new supplier relationship management (SRM) system that was launched in 2019.

We continued our focus on supporting small businesses and customised our supply chain academy for digital delivery.

What did we talk about?

- Throughout the year we worked closely with our strategic suppliers to understand their Brexit mitigation plans, particularly with respect to the availability of migrant labour and materials. Engagement took place throughout the year aligned to political events.
- The wellbeing of our workforce and COVID-19 safe controls.
- We have discussed in detail our Climate Change Action Plan and our need to address Scope 3 emissions, particularly from materials such as concrete, steel and aggregates.

How did we respond?

- The findings of our engagement pre- and post-Brexit have indicated there will be minimal impact on availability of materials and labour. We will continue to seek updates as appropriate from our supply chain.
- Our director of behavioural safety provided practical guidance to our supply chain on achieving social distancing.
- We held two cohorts of our supply chain academy, reaching 31 small and medium-sized enterprises (SMEs) with free of charge learning from our experts to optimise their businesses.
- We talked to our strategic suppliers about the Mental Health at Work Commitment and we listened to their approach to employee wellbeing and provided advice.

Communities and environment

How did we engage with them?

At a time when our communities were home more than ever before, it was essential we kept in touch, informed them of our activities and supported their needs.

Some of our projects are high-profile and sensitive by nature, attracting protestors for a variety of social, environmental and economic reasons. We advise our people not to engage directly with protestors.

Digital communications continue to shape our approach and have enabled us to keep connected in 2020. In August, our A30 contract held a virtual public exhibition, receiving an unprecedented 1,500 visitors in the first 48 hours. The virtual platform enhanced accessibility for the community and allowed members of the project team to be on hand to respond to queries in a more efficient way.

What did we talk about?

- It has been important to reassure our communities of the COVID-19 safe measures we have taken.
- We have talked to our communities and charities about the support they needed during the lockdown periods.
- We continued to talk to our communities about the impact of our operations on the environment and sought to work together to enhance the natural capital.

How did we respond?

- We delivered in partnership with the Prince's Trust three World of Work tours programmes, engaging 30 young people and raising awareness of career paths.
- We supported Business In The Community with their National Business Response Network, linking our supply chain with community needs. In London we provided over 10,000 face masks to a variety of community organisations.
- Costain military reservists were called up to support the COVID-19 response, helping to set up Nightingale hospitals.
- We produced an employee support guide for managing protestors at our major projects and offices. We are committed to delivering projects that improve people's lives and add value to the UK economy.

Leading with our Responsible Business Commitments

In addition to providing leading edge solutions, operating responsibly and sustainably is a business imperative for Costain. Underpinning our commitments to responsible business are 10 actions that all of our people, partners and suppliers must factor into their decision-making, helping us to achieve our 2030 ambitions and positively contribute to the UN Sustainable Development Goals (UN SDGs). Our commitment is supported by Costain's policies, procedures and enabling strategies and plans (wellbeing, safety and environment (WiiSE), Climate Change Action Plan and inclusion strategy).

Commitments

Create a greener future	Ensure Costain is a safe, inclusive and great place to work, where everyone can be at their best	Enhance the value that Costain contributes to society

Actions

Create a greener future	Ensure Costain is a safe, inclusive and great place to work, where everyone can be at their best	Enhance the value that Costain contributes to society
1. Always a low or zero carbon solution. 2. Eliminate waste through circular thinking. 3. Enhance biodiversity, social value and natural capital.	4. Always prioritising the safety of our colleagues and members of the public. 5. Inclusive and accessible to all. 6. Enable people to be at their best everyday.	7. Work smart and efficiently. 8. Procure sustainable goods and services. 9. Client focused. 10. Deliver value for our shareholders.

2030 Goals

Create a greener future	Ensure Costain is a safe, inclusive and great place to work, where everyone can be at their best	Enhance the value that Costain contributes to society
• Net zero carbon on or before 2035, for all operations. • Eliminate waste through an active role in the circular economy. • Net positive biodiversity impact and increased natural capital value.	• Eliminate all harm. • A gender pay gap of <5% and a reduction in our BAME pay gap of 50%. • Demonstrable improvement in employee wellbeing as a result of being at work.	• Spend £1bn with small businesses or voluntary, community and social enterprises (VCSE). • Be recognised as a champion for human rights. • Exceed all relevant industry regulatory customer satisfaction measures. • Our alignment to the UN SDGs has delivered enhanced shareholder value.

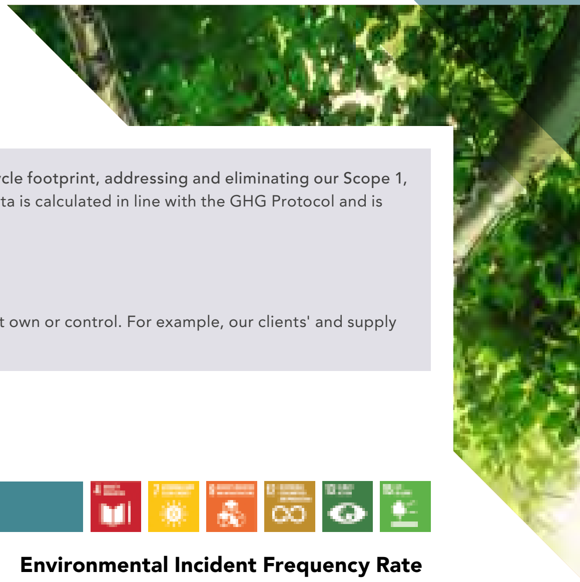
In 2021 we will...

Create a greener future	Ensure Costain is a safe, inclusive and great place to work, where everyone can be at their best	Enhance the value that Costain contributes to society
• Reduce plant idling by 20%. • Our low emissions car fleet will achieve a CO_2 reduction of 20%. • 100% of relevant contracts are measuring natural capital and biodiversity impact to target net gain. • Our sites will continue to work hard in protecting our local environments, achieving an environmental incident frequency rate of <0.12. • Continue working towards compliance with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations.*	• Continue to prioritise eliminating harm in all we do, which also supports achieving an AFR of <0.04. • Continue to support the Mental Health at Work commitment. • Run quarterly employee wellbeing and engagement surveys. • Have a 100% year-on-year increase in inclusion network membership, with 50 trained and visible allies across the Group. • Target that female colleagues will make up 29% of our employee population. • Target that BAME colleagues will make up 11% of our employee population.	• Support 100 disadvantaged young people and 100 under represented people to enhance their job ready skills. • To develop supply chain skills, we will transfer 5% of our apprentice levy to SMEs. • Volunteer ≥ 500 hours to support COVID-19 recovery initiatives. • Spend >£100m with small businesses and VCSEs with a view to accelerating achievement of 2030 goal. • Report social value outcomes on 100% of relevant contracts. • Have an average Considerate Constructors Scheme score of ≥42.

Our 2020 progress

Create a greener future	Ensure Costain is a safe, inclusive and great place to work, where everyone can be at their best	Enhance the value that Costain contributes to society
• £29.9m and c543,000 tCO_2eq have been saved through implementation of our Resource Efficiency Matrix in 2020. • Certified to PAS2080. • Launched our Climate Change Action Plan to achieve net zero by 2035.	• Costain named as a Top 100 Apprenticeship Employer. • Demonstrating commitment to disability inclusion, Costain signed up to the Valuable 500. • A new employee forum 'Your Voice' was launched to help make Costain a great place to work (see page 55).	• We donated over 10,000 face masks to London community groups to support their services. • Costain signed up to the People Matter Charter. • Over £342m spent with VCSEs and small businesses in 2020.

* We have recognised climate change as an emerging risk (see our risks section on pages 40 to 43) and our Climate Change Action Plan (see page 30) identifies opportunities for Costain to mitigate its carbon footprint as well as influence the footprint of our industry. 2021 will see us continue to work towards compliance with all four pillars of the TCFD recommendations.



In 2020, we launched our Climate Change Action Plan (see page 30). Our plan tackles the whole life carbon cycle footprint, addressing and eliminating our Scope 1, 2 and 3 emissions with a key focus on materials; specifically concrete, steel and aggregates. Our emissions data is calculated in line with the GHG Protocol and is third party accredited under CEMARS by Achilles. 100% of our emissions are incurred in the UK.

Scope 1 – all direct emissions from the activities of an organisation or under their control.

Scope 2 – indirect emissions from electricity purchased and used by the organisation.

Scope 3 – all other indirect emissions from activities of the organisation, occurring from sources that we do not own or control. For example, our clients' and supply chain Scope 1 emissions.

Our 2020 performance

Improving lives and contributing to the UN SDGs:

Create a greener future

CO_2 data

CO_2 emissions (tCO_2e)

16,216 total*

2020	**16,216**
2019	14,748

14,970 Scope 1 (tCO_2e) in '000s**

2020	**14,970**
2019	12,697

Emissions intensity (tCO_2e/£m)

16.52**

2020	**16.52**
2019	11.37

1,246 Scope 2 (tCO_2e) in '000s*

2020	**1,246**
2019	2,051

Environmental Incident Frequency Rate

(EIFR)

0.14

2020	**0.14**
2019	0.12

* In 2020, we began reporting both Renewable Energy Guarantees Origin (REGO) and non-REGO consumption in our Scope 2 emissions. We have restated our 2019 total and Scope 2 emissions to include REGO and non-REGO consumption, allowing direct comparison to 2020 emissions.

** Our Scope 1 emissions increase is a direct impact of increased gas oil and diesel consumption due to several projects entering their delivery phase during the reporting period. This (and our reduced revenue in 2020) has impacted our Emissions Intensity. Our Climate Change Action Plan sets out the clear steps we are taking to reduce our whole lifecycle footprint.

Ensure Costain is a safe, inclusive and great place to work, where everyone can be at their best

Diversity and inclusion

Equality, diversity and inclusion

2,302 male 815 female

	Male	Female
2020	74%	26%
2019	75%	25%

Board members

3 male 4 female

	Male	Female
2020	43%	57%
2019	57%	43%

Senior Management

23 male 10 female

	Male	Female
2020	70%	30%
2019	75%	25%

- Formation of Disability & Wellbeing network.
- Costain recognised as a Times Top 50 Employer for Women for third consecutive year.

Accident Frequency Rate

(AFR)

0.03

2019: 0.05

- Our best ever All Accident Frequency Rate (AAFR) of 0.44.
- Representing a 34% year-on-year reduction and our best ever safety performance.

Enhance the value that Costain contributes to society

Group charitable giving

£211,000

2020	**£211,000**
2019	£225,100

- Proud Patrons of the Prince's Trust, holding virtual site tours.
- Four colleagues supporting Business in the Community in regional leadership board roles.

Considerate Constructors Scheme (CCS) average score

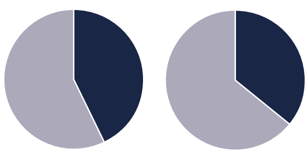
43.8 out of 50

2020	**43.8**
2019	42.3

- Costain has the third highest average Considerate Constructors Scheme score for any construction related business.
- Over 14,000 individual students engaged with our careers resources via the online platform Start.

Spend with SMEs

43% 2020 37% 2019



- 200th SME completed the Costain Supply Chain Academy.
- Since launching in 2014, the Costain Supply Chain Academy has delivered over £700k of social value to 208 SMEs and reached over 5,800 people.

Leading as a responsible business

Our Climate Change Action Plan to achieve net zero

Addressing climate change is the biggest challenge of the 21st century and businesses, society and government all have a significant part to play.

We have set an ambition to lead UK infrastructure into a zero carbon future by 2035 at the latest, supporting the Government in meeting their 2050 target. Find out more about out detailed action plan at www.costain.com/what-we-do/climate-change-solutions/

2020 has seen us focus on our whole life footprint, reducing our Scope 1 and 3 emissions by tackling two of our emission hotspots: vehicles and plant emissions.

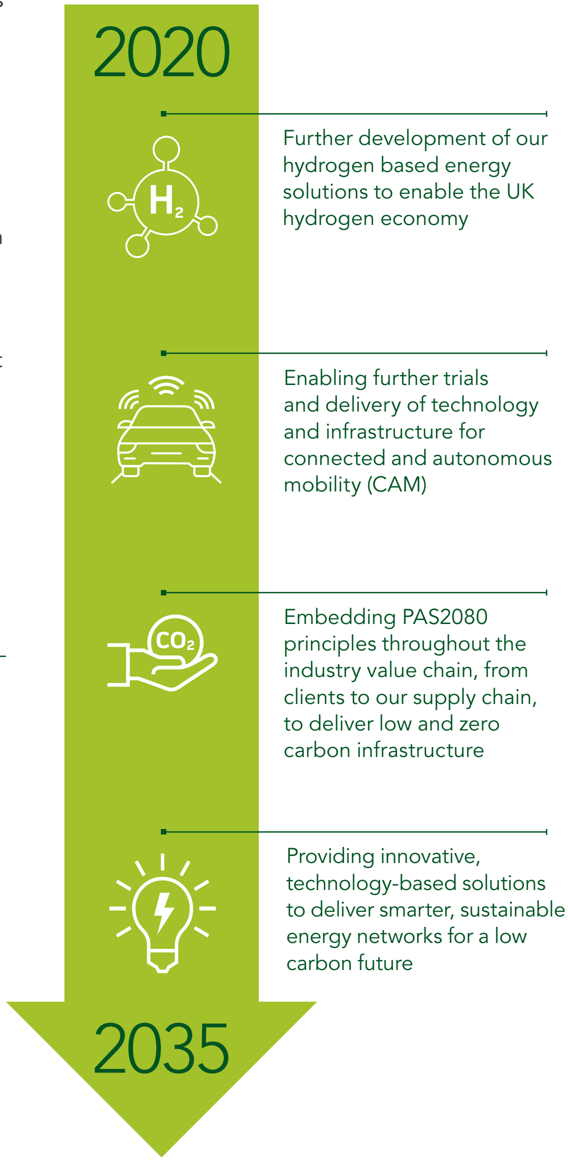
We have committed to transition the whole car fleet (both company car and car allowance) to a 100% emission-free electric and hydrogen fleet by 2030. In 2020, hybrid and electric vehicles were made available across every grade with more than 50% of the available fleet made up of low emission vehicles. An internal engagement plan has highlighted the social and economic benefits of choosing electric vehicles to our employees, and we are confident that we will meet our 2030 target for a 100% emission free fleet.

Fuel consumption by plant used on site represents a significant proportion of our Group carbon footprint. To reduce it, we have worked with our sites and supply chain to create an idling reduction plan. This identifies causes and addresses the behaviour changes required to meet our 20% reduction per annum target.

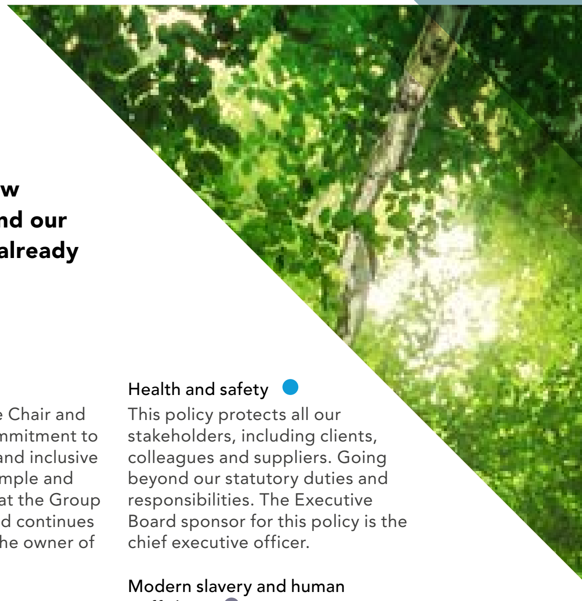
In 2020 we also:

1. achieved certification to PAS2080, the global carbon management standard
2. worked closely with plant manufacturers to shape future ultra low emissions plant and machinery
3. trained over 180 of our senior leaders in our Leading Carbon in Costain course, aimed at reducing carbon through behavioural management.

We continue to use our Resource Efficiency Matrix across our projects. Since its 2018 launch, our Resource Efficiency Matrix has identified over £49m in operational and capital costs savings and 1.9m tonnes of carbon emission equivalent (tCO_2e) from operational and delivery phases for Costain, our clients and supply chain partners.



Non-financial Information Statement



Our reporting is compliant with the Non-Financial Reporting requirements contained in sections 414CA and 414CB of the Companies Act 2006. The below table, and information it refers to, is intended to help stakeholders understand our position on key non-financial matters. This is in addition to the reporting we already do under CDP and Global Reporting Initiative.

ESG and risk management reporting requirements and additional information

Environmental

- Our responsible business commitments page 28

Employees

- Our responsible business commitments page 28
- Board composition and diversity pages 60 and 61
- Gender Pay Gap Report
- Inclusion Strategy

Human rights

- Our approach page 24
- Modern Slavery Statement
- Supplier code of conduct

Social matters

- Our responsible business commitments page 28
- Gender Pay Gap Report
- Inclusion Strategy

Anti-corruption and anti-bribery

- Supplier code of conduct

Policy embedding, due diligence and outcomes

- Principal risks and uncertainties pages 40 to 43

Description of principal risk and impact on the business

- Principal risks and uncertainties pages 40 to 43

Description of business model

- Business model pages 12 and 13

Non-financial KPIs

- See pages 22, 23, 28 and 29

Policy

Board diversity

This policy sets out the Chair and Board of directors' commitment to maintaining a diverse and inclusive Board. Leading by example and setting expectation that the Group operates inclusively and continues to invest in diversity. The owner of this policy is the chair.

Business continuity management

The principles which are to be adopted to ensure business continuity across the Group are set out in this policy. The Executive Board sponsor for this policy is the chief digital officer.

Collaborative working

This policy sets out the approach that Costain management shall take to ensure a collaborative working environment is maintained and relationships reflect the requirements of ISO44001:2017 Collaborative Business Relationships. The Executive Board sponsor for this policy is the Group commercial director.

Customer service

This policy is a declaration of the Board's intent in relation to achieving a positive impact on society. It sets out how Costain will meet the needs of clients, through professional, courteous and efficient service. The Executive Board sponsor for this policy is the chief executive officer.

Drugs and alcohol

This policy is a declaration of the Board's intent to provide a safe and healthy working environment free from inappropriate use of alcohol and drugs in all Costain undertakings. The Executive Board sponsor for this policy is the chief executive officer.

Environmental

This policy sets out our approach to environmental management, going beyond minimising harm to the environment and sets out the proactive requirements of how our people must work to meet our objective to be net zero carbon by 2035 at the latest. The Executive Board sponsor for this policy is the chief executive officer.

Ethical business conduct

Bribery prevention, fair and open competition, insider dealing prevention, fraud prevention and whistleblowing are all covered by the Costain Ethical business conduct policy. The Executive Board sponsor for this policy is the general counsel and company secretary.

Health and safety

This policy protects all our stakeholders, including clients, colleagues and suppliers. Going beyond our statutory duties and responsibilities. The Executive Board sponsor for this policy is the chief executive officer.

Modern slavery and human trafficking

This policy specifies the mandatory conditions of employment and contractual conditions for our suppliers in respect of human rights. The Executive Board sponsor for this policy is the Group human resources director.

People

The Costain People policy encompasses recruitment, development, reward, equality and diversity, health and wellbeing, compliance with labour/employment and data protection laws and regulations wherever we work. The Executive Board sponsor for this policy is the Group human resources director.

Responsible business

This policy sets out the Board expectation for how the Company, its employees, partners and suppliers must conduct themselves, including three high level commitments to responsible business: ensure Costain is a safe, inclusive and great place to work where everyone can be at their best; create a greener future; and enhance the value Costain contributes to society. The Executive Board sponsor for this policy is the Group human resources director.

Sustainable procurement and supply chain

The Costain sustainable procurement and supply chain policy stipulates the conditions of all procurement activity, aligning outcomes to our responsible business commitment and Leading Edge strategy. The Executive Board sponsor for this policy is the Group commercial director.

Divisional results

Transportation	2020	2019
Adjusted revenue	724.2	740.6
Statutory reported revenue	674.1	720.6
Adjusted operating profit	20.1	29.7
Statutory reported operating profit/(loss)	(30.3)	9.7

Under our 'One Costain' operating model we operate across two core divisions of 'transportation' and 'natural resources'.

Transportation

The division has a forward order book of £3.1bn (2019: £3.1bn), which includes our Regional Delivery Partnership (RDP) position of £1.1bn and a preferred bidder position on the Smart Motorways Alliance with allocated work of £1.0bn.

Notable contract wins in 2020 include: the Smart Motorway Alliance (£1.3bn), RDP addition of A30 (£250m) and Specialist Professional and Technical Services framework (SPaTS2) for Highways England; commencement of phase 1 of the Main Works Civils Contract joint venture for HS2 (£1.4bn); a smart street lighting project for Bradford Council helping them deliver their targeted efficiency programme and Network Rail's Design Services Framework.

A465 Contract

As announced on 17 February 2021, a settlement agreement was entered into with the Welsh Government in relation to the A465 contract. The financial terms of the settlement are in line with the provision made by the Group at the half-year of £45.4m. As a result of the settlement, the Company has certainty of the final account sum payable by the Welsh Government to the Company, including further milestone payments. Work on the contract is nearing completion, and the Company continues to be responsible for the delivery and the management of associated project risks for the remaining works, which are scheduled to be completed in September 2021.

Highways

As a strategic partner for Highways England, we opened the flagship A14 Cambridge to Huntingdon project early and to budget. This project combats congestion, improves safety and unlocks regional growth by connecting people in the region. On RDP, which is delivering schemes set out in the Road Investment Strategy through a longer-term, integrated approach to improve benefits and eliminate waste, we are continuing to deliver the A19 Testo's scheme and have now also successfully started work on the adjacent Downhill Lane Junction scheme. These are performing well to date in terms of both quality and performance. We have also mobilised the A30 contract and we continue to develop innovative solutions with Highways England on three road improvement contracts on the A1 and the A12 widening.

Costain has worked with Highways England for many years to improve the safety, capacity and journey experience on the nation's strategic road network. As well as delivering new smart motorways as part of the Smart Motorway Alliance, we are providing highways maintenance services on the M1 and M62 smart motorways in Yorkshire and Humber as part of our Area 12 contract. We are delivering R&D projects to support the continuing development of digital roads, and we successfully completed our 'Connected Digital Roads' project which explored the opportunities for integrating smart motorway technology with connected vehicle technology to enhance the benefits of smart motorways.

In addition, we continue to support Highway's England's operations division with a number of asset management contracts.

We continue to support devolved investment in infrastructure. We are working with East Sussex County Council on its highways services asset management programme, Lancashire County Council on the Preston Western Distributor road to improve connectivity and economic growth in the region and Bradford City Council on its green street lighting programme.

In developing our position as a valued implementation-biased consultant, we are working with Transport for London (TfL) in consultancy roles on Hammersmith Pedestrian Bridge and the A40 Westway upgrade. We continue to support the Department for Transport as a prime supplier on its STARTwo consultancy framework, under which we offer advice to the Government on a range of strategic, nationally important transportation issues. Working with Highways England, through the SPaTS2 framework we are supporting the shaping of the future roads network and improved methods of programme delivery. Our technology centre continues to develop and implement new systems to meet the needs of an increasingly digital strategic road network.

Rail

In this period, due to the impact of COVID-19 on Crossrail's budget and programme, our joint venture mutually agreed settlement and termination on Crossrail's Bond Street station. Work continues on the systems and technology required for commissioning the Elizabeth Line, and we have secured, by client request, a one year extension on this contract to help the client successfully deliver the new railway. As this is published, we are working hand in hand with Crossrail to deliver Paddington and secure opening deadlines for the station.

Our activity on High Speed 2, Britain's low carbon, high capacity railway is progressing well and growing significantly. We are delivering the Enabling Works and have mobilised the Phase 1 Main Civils Contracts on two major sections of the route. Our consulting team has continued to support the design work associated with the Hybrid Bill for Phase 2a and the development of the route for Phase 2b.

The upgrade of Gatwick Airport Station for Network Rail to improve capacity of this critical UK transportation hub is progressing well. We continue to work with Network Rail on our reliable, solar powered, wireless, radar-based warning system (Meerkat) and this will be deployed across the majority of Network Rail's remote level crossings in 2021.

Pushing the pace on digitisation and innovation to drive better, faster and greener delivery of infrastructure, we are working together with key partner SAP and a consortium of industry leading enterprises (such as Transport for London (TfL), Highways England, HS2 and Network Rail) called the 'Transport Infrastructure Efficiency Strategy Living Lab' (TIES Living Lab) to create a demonstrator for a new cloud-based data platform called the Intelligent Infrastructure Control Centre (IICC).

Aviation

Despite early success in securing consultancy frameworks for Manchester Airports Group, Heathrow Airport Limited and Gatwick Airport, we have adjusted the focus of our aviation business as the industry is in stasis due to COVID-19, reaching out to regional airports and widening our offering to border issues and alternative fuel usages such as hydrogen.

Central Government

Costain has built a new portfolio of work with central government and continues to win and deliver important and influential services to key clients in this sector.

We delivered throughout 2020 as a technical and commercial partner to the Department for Transport on highly complex time sensitive and critical projects facing the UK economy during COVID-19 and in preparation for Brexit. In addition to this work we have also undertaken strategic consulting assignments for the Infrastructure and Projects Authority, the Cabinet Office and for the Department for Business, Energy and Industrial Strategy to lay the foundations for building back a better, more sustainable Britain in line with the SPEED strategy.

Divisional results

Natural Resources	2020	2019
Adjusted revenue	**345.1**	**429.4**
Statutory reported revenue	**303.1**	**429.4**
Adjusted operating profit	**5.7**	**15.4**
Statutory reported operating profit/(loss)	**(43.6)**	**15.4**

Natural resources

As at 31 December 2020 the division had a forward order book of £1.1bn (2019: £1.1bn), reflecting wins of £0.3bn in 2020.

Notable contract wins across the range of our broader services include the Strategic Pipeline Alliance for Anglian Water; the Technical Services Framework for Yorkshire Water; the AMP7 PMO contract for Thames Water; the programme management consultancy for Cadent and P3M consultancy and delivery partner roles for Babcock at Devonport Royal Dockyard.

Peterborough & Huntingdon Contract

On 29 June 2020, Costain announced that a termination and settlement agreement (the "Agreement") had been reached with National Grid to cease work on the Peterborough & Huntingdon gas compressor project (the "Contract") following a significant change in scope. The Agreement includes a legal process, through adjudications, to agree up to £80.0m of identified compensation events, recover costs to date and eliminate a potential liability to National Grid for completing the works.

In its interim results for the six months ended 30 June 2020, Costain recorded a charge to the income statement of £49.3m reflecting the cash position at termination. The legal process is ongoing and all adjudications will be filed by December 2021. Supported by external advice, Costain believes it has a strong entitlement to retain, as a minimum, the reported position, with no further cash outflow.

Under the terms of the Agreement, the cumulative outcome for Costain of these adjudications could range from an additional cash receipt of up to a maximum of £50.0m to a cash payment (which would not affect Costain's banking arrangements) of up to a maximum of £57.3m. Any such cash adjustments would be made in the first quarter of 2022.

Water

We are focused on helping our clients respond to the Ofwat regulatory requirements for water companies, enabling them to meet stretching performance targets and efficiency challenges in the period to 2025. We have secured positions with our broadest ever number of clients as we move into AMP7. We continue our complex capital delivery programme delivery with Severn Trent Water, Southern Water and Thames Water, driving efficient and innovative solutions such as asset optimisation. We are appointed as sole Maintenance Service Provider for United Utilities, providing overall management and delivery of United Utilities' larger-scale water and wastewater asset maintenance activities across the entirety of its network. Our appointment on Yorkshire Water's Technical Services Framework will see us providing a broad range of integrated consultancy and digital services to support our client in driving efficient transformation and optimisation of its water and wastewater assets during the first four years of AMP7. We are working alongside Anglian Water in its Strategic Pipeline Alliance to develop an enterprise-ready digital twin which will optimise management of the water

network throughout the lifecycle of the new strategic pipeline and provide a much better, more stable, 24/7 service to all of its customers. We provide consultancy services to Thames Water as PMO, driving efficient delivery across its whole AMP7 programme. We also continue to provide consultancy and asset management services to South Staffs Water.

We are working to support the UK water sector to achieve net zero carbon by 2030. In collaboration with Welsh Water, we have been awarded funding by Innovate UK for the Hy-Value project, demonstrating significant progress towards converting sewage-derived biogas into zero-emission fuel.

We are now finalising works on the AMP6 five-year programmes for Thames Water, Severn Trent Water and Southern Water. Our AMP6 contract with Thames Water includes an element of incentivisation, aligned to the client's objectives, estimated through the life of the contract and finalised at the end of the programme.

The Thames Tideway project, on which we are in a joint venture to deliver the east section, continues to progress well. We have recently reached an important milestone on the project, with both tunnel boring machines launched in 2020 and overall completion is scheduled for 2024.

Energy

We continue to drive the transformation of our energy sector with a renewed market focus on expanding our consultancy services in decarbonisation and maximising existing asset performance.

In 2020 we secured leading roles in the future decarbonisation of the UK through three UK carbon capture and storage cluster schemes, as well as delivering a number of firsts in the UK decarbonisation space; first trial of hydrogen into regional distribution network; first in network gas compression for biogas; first carbon capture scheme; and first microgrid and resilience as a service project for Scottish and Southern Electricity Networks. We continued our important roles in both the South Wales and Scotland industrial clusters and demonstrated the feasibility of the concept of hydrogen 'deblending' for a first of its kind programme that brings together all the gas distribution networks to collaboratively develop innovative hydrogen solutions that will decarbonise energy for heat, transport, industry and power generation. While the pace of the UK transitioning to a decarbonised energy network is slower than expected, we have secured key positions which allow us to continue to support our clients today, while working with them to shape and deliver the energy networks of the future.

In addition, in 2020, Costain has provided the strategic planning and programme management to Cadent as part of its 10-year capital investment programme. This contract builds on the established partnership Costain has with Cadent as one of its partners overseeing the HS2 gas main diversions. We are also Cadent's strategic partner in the transition to the decarbonisation of energy networks including the hydrogen economy through the North West Hydrogen Alliance, and the OptiNet project to research gas compression technology.

Our Sellafield decommissioning framework contract and our EDF Project Controls framework contract continue to perform in line with expectations.

Defence

In 2020, Costain strengthened its market position as a valued consultant with a number of key client wins. Today, we are involved in the Continuous At Sea Deterrent programme on several levels, working with defence primes including AWE, Rolls Royce and BAE, and directly with the Ministry of Defence via the Crown Commercial Services framework. In addition, we are providing P3M consultancy services and delivery partner roles for Babcock at Devonport Royal Dockyard.

Our programme management contract for AWE Project MENSA continues to meet performance expectations, allowing us to secure opportunities to support AWE on additional projects.

This review brings together the key financial metrics of the Group and sets out the matters of financial significance. In 2020, the Group's financial performance was impacted by several factors which resulted in a reduction in adjusted operating profit and earnings per share. These were principally the impact of COVID-19 £9.2 million and the impact of an extensive contract review during the year assessing end-of-life assumptions and changes in margin mix and volume.

Results

Adjusted Group revenue was £1,070.5m for the year to 31 December 2020 (2019: £1,175.6m). Statutory reported Group revenue was £978.4m for the year (2019: £1,155.6m). The reduction in revenue results from a lower level of capital project activity, in line with our planned strategic change in mix of services and revenue adjustments on the A465, P&H and ASF South contracts.

The Group's adjusted operating profit was £18.0m (2019: £37.9m) with the reduction in the period due to the factors set out in the opening paragraph. Statutory reported operating loss for the year was £92.0m (2019: £3.2m loss), with the significant reduction due to the lower underlying operating profit, impact of COVID-19 and the adverse impact of other items as set out below.

Adjusted profit before tax for the year was £13.9m (2019: £34.6m). Adjusted basic earnings per share amounted to 5.8 pence (2019: 25.1 pence).

Statutory reported loss before tax for the year was £96.1m (2019: £6.6m loss). Statutory reported basic loss per share was 36.7 pence (2019: 2.3 pence loss per share).

The results of the Group's operating divisions are considered in the operational reviews on pages 32 to 35 and are shown in the segmental analysis in the financial statements. The Group operates with two core divisions of 'transportation' (rail, highways and aviation) and 'natural resources' (water, energy and defence).

Other items

To aid understanding of the underlying performance of the Group throughout the annual report adjusted operating profit and adjusted profit before tax have been used as alternative performance measures. These measures exclude items which are considered to be one-off and unusual in nature or related to accounting treatment of acquisitions and fall into two categories:

1. the contract adjustments of £94.7m on the A465 and Peterborough & Huntingdon contracts detailed below as well as the £5.0m final settlement charge against a contract (ASF South) that completed five years ago; and
2. 'other items' of £10.3m, which are shown in a separate column in the consolidated income statement include amortisation of acquired intangible assets, deferred consideration treated as an employment expense, impairments and profits and losses on sales of non-core assets (impairment of non-core assets £1.2m, profits on the sale of non-core assets in Zimbabwe £1.0m and Spain £0.4m, the sale of 'Building Schools for the Future' interests £1.6m) and a £9.0m impairment of goodwill in our natural resources division, one-off costs associated with advice received in renegotiating the Group's bank facilities £1.2m and a £0.9m charge relating to GMP equalisation of certain transfers of pension liabilities following another Lloyds pension scheme court ruling in late 2020.

Peterborough & Huntingdon contract

On 29 June 2020, Costain announced that a termination and settlement agreement (the "Agreement") had been reached with National Grid to cease work on the Peterborough & Huntingdon gas compressor project (the "Contract") following a significant

"The Group continues to have a positive net cash position."

Helen Willis Chief Financial Officer

change in scope. The Agreement includes a legal process, through adjudications, to agree up to £80.0m of identified compensation events, recover costs to date and eliminate a potential liability to National Grid for completing the works.

In its interim results for the six months ended 30 June 2020, Costain recorded a charge to the income statement of £49.3m reflecting the cash position at termination. The legal process is ongoing and all adjudications will be filed by December 2021. Supported by external advice, Costain believes it has a strong entitlement to retain, as a minimum, the reported position, with no further cash outflow.

Under the terms of the Agreement, the cumulative outcome for Costain of these adjudications could range from an additional cash receipt of up to a maximum of £50.0m to a cash payment (which would not affect Costain's banking arrangements) of up to a maximum of £57.3m. Any such cash adjustments would be made in the first quarter of 2022.

A465 contract

As announced on 17 February 2021, a settlement agreement was entered into with the Welsh Government in relation to the A465 contract. The financial terms of the settlement are in line with the provision made by the Group at the half-year of £45.4m. As a result of the settlement, the Company has certainty of the final account sum payable by the Welsh Government to the Company, including further milestone payments. Work on the contract is nearing completion, and the Company continues to be responsible for the delivery and the management of associated project risks for the remaining works, which are scheduled to be completed in September 2021.

ASF South contract

Following an extensive contract review, a decision was taken to take a one-off charge of £5.0m to settle a legacy contract with Highways England where works were completed in 2016.

Sale of non-core assets

Alcaidesa

In August 2020, the Group sold its marina concession for €4.75m, the disposal of which completes the Group's strategy to divest its non-core business assets in Spain. The aggregate loss on sale was £0.2m, including an impairment charge in the first half of the year. Revenue in this non-core division in the period was £1.2m (2019: £5.6m) with a £0.1m operating loss (2019: £0.7m).

Legacy asset disposals

In the first half of the year, the Group completed the sale of its legacy company that held property assets in Zimbabwe for £1.0m (net of costs), which as the assets were held at no value represents the profit on the disposal. In August 2020, the Group also completed the sale of its equity share in its two remaining 'Building Schools for the Future' partnership companies for a combined consideration of £3.7m. The Group's full year results include the profit of £1.6m from the sale.

Net finance expense

Net finance expense amounted to £4.3m (2019: £3.7m). The interest payable on bank overdrafts, loans and other similar charges was £4.1m (2019: £3.3m) and the interest income from bank deposits and other loans and receivables amounted to £0.6m (2019: £0.9m). In addition, the net finance expense includes the interest income on the net assets/liabilities of the pension scheme of £0.2m (2019: £0.1m income) and the interest expense on lease liabilities of £1.0m (2019: £1.3m) under IFRS 16. 2019 included an unwind of discount on deferred consideration of £0.1m.

Tax

The Group has a tax credit of £18.1m (2019: £3.7m credit) giving an effective tax rate of 18.8%. The 2020 tax credit arose from recognising a deferred tax asset in respect of losses that will be utilised against future taxable profits. We expect the effective tax rate to remain close to the statutory tax rate of 19% until 2023, when it will increase to 25% as announced in the recent Budget.

Debt, cash conversion

The Group had a positive net cash balance of £102.9m as at 31 December 2020 (2019: £64.9m); comprised of a Costain cash balance of £89.8m (2019: £97.4m), cash held by joint operations of £61.1m (2019: £83.5m) and borrowings of £48.0m (before arrangement fees of £1.2m) (2019: £116.0m). Approximately £17.0m of the net cash balance (2019: £35.0m) reflects positive timing of receipts at the year-end which reversed in the early part of 2021. During the year, the Group's average month-end net cash balance was £73.8m (2019: £41.2m) improving to £94.4m in the second-half.

The cash inflow in the period reflects the positive cash flow from the capital raising, operations and asset sales offset by operating outflows on P&H and A465, working capital movements and associated pension deficit contributions.

Contract bonding and banking facilities

The Group has in place banking and bonding facilities from banks and surety bond providers to meet the current and projected usage requirements. The Group has banking facilities of £179.0m with its relationship banks with a maturity date of 24 September 2023. These facilities are made up of a £131.0m revolving credit facility and a £48.0m term loan.

In addition, the Group has in place committed and uncommitted bonding facilities of £320.0m. Utilisation of the total bonding facilities on 31 December 2020 was £112.3m (31 December 2019: £122.0m).

Pensions

As at 31 December 2020, the Group's pension scheme deficit in accordance with IAS 19, was £5.6m (2019: £4.9m surplus).

Based on the actuarial valuation as at 31 March 2019, the Company has in place a deficit reduction plan, agreed with the pension scheme trustee, which requires a contribution of £10.2m per annum (increasing annually with inflation). In addition, as previously implemented, the Group will continue to make an additional contribution so that total deficit contributions match the total dividend amount paid by the Company each year.

Guaranteed minimum pension (GMP) equalisation

On 26 October 2018, the High Court issued a judgement involving Lloyds Banking Group defined benefit pension schemes which concluded that the schemes should be amended to equalise pension benefits for men and women in relation to GMP benefits. This decision had implications for all defined benefit pension schemes with liabilities before 1997 and led to an increase of £8.6m on the reported pension liabilities at 31 December 2018 which was recorded as a pre-tax exceptional expense in the 2018 income statement.

Subsequent to this, the High Court issued another judgment on 20 November 2020 confirming pension schemes would need to revisit and equalise GMPs in historical transfer values paid out between May 1990 and October 2018. Therefore, an allowance for the equalisation of GMP in historical transfer values of £0.9m has been included in the year end disclosures. This increase in liabilities represents a past service cost and has been recorded as a pre-tax exceptional expense in the 2020 income statement, shown within 'other items'.

Order book

During the year, the Group secured £1.2bn of new contracts and extensions and the Group's order book was maintained at £4.2bn (31 December 2019: £4.2bn), with over 90% being repeat orders.

The order book is made up of an estimate of the value remaining on secured contracts, framework arrangements, service delivery arrangements and purchase orders. Several of the Group's contracts have an early contractor involvement (ECI) phase which involves planning activities and preparation pre-construction; in this case the order book also includes the estimated value of the associated construction activities.

Dividend

The Board recognises the importance of dividends to shareholders and will continue to review the timing of the reinstatement of future dividends in

the light of the Group's performance, cash flow requirements and the importance of maintaining a strong balance sheet.

Shareholders' equity

Shareholders' equity decreased in the year to £156.5m (2019: £157.7m). The movements are detailed in the consolidated statements of comprehensive income and expense and changes in equity in the financial statements.

Contract estimates

A significant proportion of the Group's activities are undertaken via long-term contracts. The majority of these contracts are not fixed-price in nature and are based on arrangements which allow for change which is expected during the contract term through the award of compensation events. Management uses detailed contract valuations and cost forecasts when formulating its estimate of costs and revenues and its assessments of the expected outcome of each long term contractual obligation. This includes, among other things, consideration of the number of compensation events on the contract, changes in the design and construction requirements, and whether these all relate to the current obligation or create a new obligation, the impact of any third-party factors and progress to date on agreements with the client. Consideration is made of the extent to which events have impacted on the cost and programme to complete the contract and the associated level of estimation uncertainty and appropriate accounting treatment. In reviewing the contract estimates attention is also paid to past performance on contracts and the success or otherwise of resolving any contractual matters.

Project bank accounts

Several of the Group's contracts operate an arrangement with the client and suppliers, known as project bank accounts, whereby monies on the contract are paid into a separate bank account covered by a trust deed and distributed directly to all suppliers, including the Group, that join the trust deed. This is not a financing arrangement but is a form of payment administration, requested by the client, to provide transparency and security of payments to suppliers. The Group does not operate any supplier financing arrangements.

Treasury

The Group's treasury and funding activities are undertaken by a centralised treasury function. Its primary activities are to manage liquidity, funding and financial risk, principally arising from movements in interest rates and foreign currency exchange rates.

The Group's policy is to ensure that adequate liquidity and financial resources are available to support the Group's growth and development, while managing these risks and not to engage in speculative transactions. Group treasury operates as a service centre within clearly defined objectives and controls and is subject to periodic review by internal audit.

Liquidity risk

The Group finances its operations primarily by a mixture of working capital, funds from shareholders, retained profits and borrowings. The directors regularly monitor cash usage and forecast usage to ensure that projected financing needs are supported by adequate cash reserves or bank facilities.

Foreign currency exposure

Translation exposure: the results of the Group's overseas activities, mainly non-core activities in Spain up to the date of disposal, are translated into sterling at rates approximating to the foreign exchange rates ruling at the dates of the transactions. The balance sheets of overseas subsidiaries and investments are translated at foreign exchange rates ruling at the balance sheet date. The Group held a currency hedge against the assets held in its Spanish subsidiary that was closed out on the disposal.

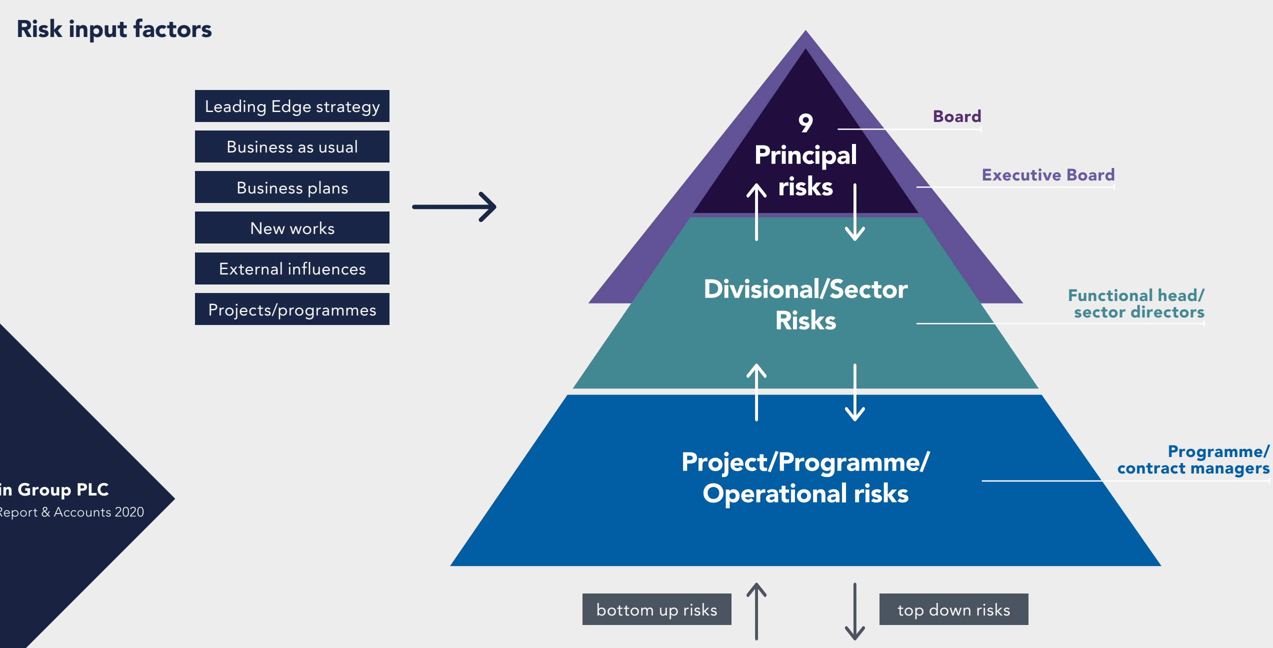
Transaction exposure: the Group has transactional currency exposures arising from overseas supply purchases for business in the UK and from subsidiaries' commercial activities overseas. Where appropriate, the Group requires its subsidiaries to use forward currency contracts to minimise any currency exposure unless a natural hedge exists elsewhere within the Group.

Interest rate risks and exposure

The Group enters into financial instruments, where necessary, to finance its operations. Various financial instruments (for example, trade receivables and trade payables) arise directly from the Group's operations. The main exposure to interest rate fluctuations within the Group's operations arises from surplus cash, which is generally deposited with the Group's relationship banks, and bank borrowings against part of which the Group holds the appropriate interest rate hedging arrangements.

Helen Willis
Chief Financial Officer

Managing risks and opportunities is integral to the delivery of our strategic priorities



Approach to identifying our principal risks

Costain's risk management approach is not designed to eliminate risk entirely, but provides a means to identify, prioritise and manage risks and opportunities in accordance with the Group's risk management process.

Risks are identified both top down from the Group strategy and bottom up from the major projects, programmes, joint ventures and ongoing business as usual operational activities. These are then escalated or consolidated (as appropriate) and assessed based on a consistent methodology to identify and prioritise those that could threaten the achievement of the Group's strategic priorities.

Top down review

All principal risks are integrated with our strategic priorities. These are reviewed by the Executive Board members at various times throughout the year, for example at executive strategy, work winning, finance and health and safety meetings. A formal bi-annual review of risks by the Executive Board is aligned to half year and year-end reporting. Each principal risk is owned by a member of the Executive Board. Discussions are held with the owners and their delegates to update the risk status and review progress of response actions, together with any supporting metrics to review their effectiveness.

Emergent risks are reviewed and assessed by a Risk Committee consisting of nominated members of the Executive Board and the Group risk manager. The Risk Committee meets four times a year. Identified emergent risks are developed and monitored by appointed risk owners. One of our emergent risks/opportunities is climate change. We manage this risk in relation to our own operations through the implementation of our decarbonisation plan (as detailed on page 30). We also see decarbonisation specifically as an opportunity as we work with industry, transport and energy utilities to shape the decarbonised energy systems of the future.

Bottom up review

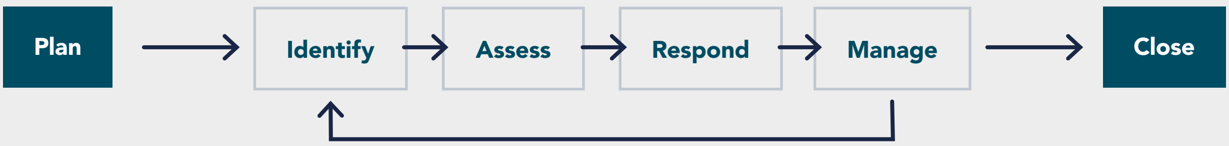
Risk management is embedded at all levels of the business. Sectors, functions, major programmes, projects and operations ensure that their risks can be effectively managed within their boundaries. If additional support or assistance is required, the risk is escalated to the next management level, up to executive level where appropriate.

Key areas of focus

Our risk profile continues to evolve and change. Although overall our principal risks have remained consistent, the areas of emphasis within each one adapts as the risks to the business change. In 2020 we have responded to new risks as we recognise the impact of the COVID-19 pandemic on our people, our clients and our business. Our initial reaction to this risk in the early months of the pandemic has allowed us to reach a position at the end of 2020 where our projects are fully operational and working in a COVID-secure manner. See pages 20 and 21 for how we achieved this. We will maintain the commitment that is required to sustain this. Moving into 2021, the changes in working practises, automation and collaboration implemented during 2020 present opportunities for us to thrive. In 2021, we will continue to drive the frequency and quality of our risk conversations throughout our business. These conversations will in turn enhance our risk mitigation plans.

Risk management process

There is continuous consultation between the top down and bottom up reviews to ensure consistency and appropriate decision-making across the Group guided by our risk management process.



Plan
A specific risk management plan that defines the risk management position to be adopted.

Identify
Identify the risks (threat and opportunities) that could impact the Company at all levels.

Assess
Use best judgement, experience, industry norms and lessons learned to estimate the consequences of the identified risks.

Respond
Develop and price appropriate response actions that will reduce the impact of the threat and improve the opportunity.

Manage
Control and monitor the risk, communicating results to allow effective decision-making.

Close
The formal end of risk management effort on an individual activity.

Risk dashboards are updated and reviewed at the various levels within Costain's business. These dashboards are used to highlight changes in the risk description, the risk causes and impacts, and to assess the progress of the mitigating activities.

The flow of risk within our risk management process is illustrated in the diagram above.

Risk appetite

Risk appetite, which defines the level and types of risk Costain is willing to accept, has been considered by the Board. Communicating our risk appetite to staff enables them to make decisions that are in line with our risk profile. Costain has a zero tolerance to harm (physical or mental) to individuals. Also, our commitment to excellence in our operational delivery is such that 100% compliance is required of our approval gates and process Must Dos.

Governance

The Board is responsible for defining risk appetite and determining the nature and extent of the principal risks the Company is willing to take to achieve its long-term strategic priorities. On behalf of the Board, the Audit Committee each year reviews the effectiveness of the Company's risk management and internal control systems. The process for doing this is set out in the Audit Committee Report on pages 74 to 78.

To undertake a robust assessment of the risks which could threaten the business objectives, performance, solvency or liquidity of Costain, the Board undertakes reviews of our principal risks and mitigation plans during the year to ensure they are well understood and actively managed to reduce the potential impact.

Our principal risks are owned by Executive Board members. They are formally reviewed and approved by the Executive Board twice-yearly in line with mid-year and year-end reporting.

Additionally, the Risk Committee meets four times a year to consider the principal risks and to review and assess emergent risks, and a monthly risk and assurance meeting monitors the ongoing risk management activity throughout the business.

The table below sets out the principal risks faced by the Company, the link to the Company's strategic priorities, movement in the risk trend and examples of relevant controls and mitigating factors. Further information on our strategic priorities can be found on pages 22 and 23.

Principal Risk	Description and impact	Controls and key mitigations	Strategic link
1 **Prevent and effectively manage a major accident, hazard or incident**	Costain operates in natural, complex and hazardous environments. Failure to manage the inherent risk and hazards, including pandemics, may results in illness, loss of life or significant damage to the environment. Failure to manage this risk could result in reputational damage, loss of business and financial penalties. **Risk trend: Neutral** (FY19: Neutral) Excellent controls and practices have reduced the incident rate, but we always remain vigilant and undertake continuous improvements in this area.	Safety, health and environment management policies and procedures. Ongoing reviews and improvement of our safety, health and environment performance through routine continuous improvement processes. The Costain behavioural management programme. Wellbeing, safety and environment strategy and plans.	
2 **Accelerate the deployment of our higher margin services**	The effective implementation of Costain's Leading Edge strategy is critical to the Group's ability to accelerate the deployment of our higher margin services alongside our complex programme delivery. Failure to manage this risk could have an adverse effect on our business, operating results, and shareholder value. **Risk trend: Increasing** (FY19: Neutral) The financial impact of the issues with two long standing contracts illustrates the importance of delivering our Leading Edge strategy.	Detailed implementation plan, with timetabled deliverables, clear performance measures and accountable Executive Board sponsor. Annual business budget includes performance measures and actions linked to the delivery of the strategy. Work winning budget aligned to investment that supports our strategy. Clear communications plan tailored to each of our key stakeholders (internal and external) outlining how our Leading Edge strategy enables our purpose to improve people's lives by being safer, better, greener, faster and more efficient in delivering major infrastructure projects.	
3 **Maintain a strong balance sheet**	A strong balance sheet is a fundamental requirement to qualify for and support the contract sizes and duration required by our clients. Failure to manage this risk could affect our ability to achieve our business goals and our resilience to withstand economic downturns. **Risk trend: Neutral** (FY19: Increasing) Strengthened balance sheet, enabling the Group to capitalise on the growing infrastructure market opportunities.	Treasury function experienced in the management and oversight of the bank and surety bonding facilities to meet finance requirements. A robust joint venture partner selection criterion: all partnerships and alliances signed off by the Board. Monitoring and management of amounts receivable. Effective balance sheet reconciliation process. Continued focus on net asset growth with key areas for continuous development.	
4 **Secure new work**	Costain's future growth and profitability is dependent on our ability to secure new work in our competitive marketplace. To be successful we need to maintain strong client relationships and broaden our service offering by delivering innovative solutions across complex delivery, digital and consulting activities. **Risk trend: Neutral** (FY19: Increasing) Changes made in 2020 (see page 22 and 23), have enabled us to react to and address our clients' priorities.	Executive investment panel ensuring strategic focus on Costain's target markets and prioritisation of resources and activity. Customer relationship management system – to identify, manage and review all key stakeholders, ensuring that key relationships are proactively identified and maintained. Sales transformation programme in place – ensuring we have the right people, with the right skills empowered to deliver opportunities in line with our growth strategy. Close client relationships enabling us to understand and shape clients' needs, respond proactively to changes and ensure our work winning team are fit for purpose.	

Link to strategic priority

- Assuring and enhancing our performance
- Developing our skills and capabilities
- Delivering innovative solutions
- Leading as a responsible business

Principal Risk	Description and impact	Controls and key mitigations	Strategic link
5 Culture and people	The successful implementation of our strategy is dependent on our ability to attract and retain talent, grow the capabilities and performance of our employees and maintain a high performing, ethical and caring culture where our team can be at their best. **Risk trend: Neutral** (FY19: Neutral)	In-house recruitment team, focused on identifying and recruiting the right people for Costain. A fair remuneration policy monitored via the central reward team and annual pay gap reporting. A defined people strategy based on culture, inclusion, engagement and wellbeing. Learning and development budget aligned to the Leading Edge strategy and business requirements. Leadership development programmes to enable empowerment, assurance and performance outcomes. Thrive plans in place for each project and functional team to help all our team be at their best.	
6 Deliver projects effectively	Failure to enter into contracts that are aligned with our risk appetite or deliver projects to the agreed time, budget and quality could result in financial loss, regulatory and contractual breaches and loss of reputation with our clients and investors. **Risk trend: Neutral** (FY19: Neutral)	Clear contract negotiation guidelines, with any deviations requiring approval from the Executive Board investment panel. Working to our Operational Excellence Model and Costain Way requirements and guidelines. Ensuring a robust change control process is in place across all projects. Effective risk and design management process in place to provide early warning of potential issues.	
7 Manage the legacy defined benefit pension scheme	Failure to manage the legacy defined benefit pension scheme so that the liabilities are within a range appropriate to our capital base and do not adversely impact our balance sheet. **Risk trend: Neutral** (FY19: Neutral)	A third-party pension expert provides independent advice. Monitoring the funding position of the scheme via quarterly funding updates provided by the scheme's investment consultant. Investment performance monitored and input to the scheme's investment strategy. Regular monitoring in conjunction with the trustee of asset performance, pensions regulations, Company covenant and liability management.	
8 Ensure that our technology is robust, our systems are secure and our data protected	Our ability to enable safe, secure, and resilient business operations (including finding, winning, and delivering work supported by efficient corporate services) is dependent on the delivery of our core IT strategy. The delivery of this strategy is also key to our ability to safely and securely acquire, host, use, and dispose of Costain, client, and third party data. **Risk trend: Neutral** (FY19: Neutral) The increased cyber threat is offset by increased investment and a continuous focus on security.	Our core IT strategy integrates information systems, personnel and physical aspects to prevent, detect and investigate information security threats and incidents. Process in place to engage with key technology partners and suppliers, to ensure potentially vulnerable systems are identified and updated. Our architecture design provides the appropriate protections and distance between project systems and our core Costain systems. Annual penetration tests and 24 hour threat monitoring by reputable third parties. A secure environment for our internal and client data across projects enabled by a menu of digital core products provided by our Smart Delivery Platform.	
9 Anticipate and respond to changes in client circumstances	We have seen changes in the business operations and investment priorities of our core clients and clients challenged by ever evolving policy, funding, operational and regulatory changes. Failure to anticipate the changes that are affecting our clients and respond effectively, could restrict our ability to grow margins and increase market share. **Risk trend: Neutral** (FY19: Neutral)	Client service and perception surveys focused on our ability to provide foresight to help navigate emerging trends and feedback accurate and real time insights for action. Our Gartner partnership provides independent market, trend, sector, client and competitor analysis. Sales transformation programme is driving the executive investment panel protocols to enable risk-controlled faster growth. Innovation leaders are embedded in all sectors and accounts.	

The Board maintains a sharp focus on assessing the Company's prospects and viability

Assessing Costain's prospects and viability

As part of the Group's Leading Edge strategy and ambition to broaden our services, increasing the proportion of profit from higher value services, the Board maintains a sharp focus on assessing the Company's prospects and viability on a three-year basis.

Costain is one of the UK's leading smart infrastructure solutions companies, delivering integrated leading edge services to meet national needs across the UK's energy, water, transportation and defence markets. Our strategy is to focus on blue-chip clients whose major spending plans are underpinned by strategic national needs, regulatory commitments, legislation or essential performance requirements. We offer our clients leading edge solutions that are digitally optimised through the following five services which cover the whole lifecycle of their assets: future-shaping strategic consultancy; consultancy and advisory; digital technology solutions; asset optimisation and complex programme delivery. Our integrated services are aligned with our clients' changing needs, driven by rapidly changing markets which offer the potential for sustainable long-term growth.

Costain is strategically positioned for future growth with an established and trusted brand, long term strategic relationships with blue-chip clients, a highly focused and experienced management team and a broadening mix of skills and diversity across our workforce.

Costain runs a rigorous annual business planning process, involving divisional and Group management, with Board input and oversight. This produces divisional and Group business plans, which in turn generate financial plans and strategic objectives to achieve our 2024 strategy. This then drives the setting of in-year budgets. At the core of this process is the One Costain philosophy and while we operate with two divisions, we focus our resources on identifying and securing the most attractive opportunities across the markets in which we operate.

This business planning process, combined with the Group's approach to identifying, monitoring and managing risk, are a significant contributor to the assessment of the Group's prospects.

Factors in assessing long-term prospects

Strategy and business model

- Leading as a responsible business, committed to the highest SHE standards and to operating sustainably, ethically and inclusively.
- Long-term strategic relationships with blue-chip clients leading to a £4.2bn order book, encompassing a broader range of services and 90% repeat orders.
- Focused Leading Edge strategy which aligns our integrated services to our clients' changing spend patterns, targeting an increase in the proportion of higher value services to enhance margins over the medium-term.

- Rigorous contract selection, tender, contract management and governance processes, actively managing the risk of client selection, tender governance and contract form, adopting the 'One Costain' philosophy.
- Robust financial management is fundamental to win work, invest and drive sustainable business growth.

Principal risks related to the Group's business model

The assessment of viability has been made considering the principal risks as detailed on pages 42 and 43.

Structured strategic and financial planning process

The Group's prospects are assessed through the annual strategic and business planning process as described on page 44, the results of which are then reviewed in detail by the Executive Board.

To create these plans, each division assesses external factors – market spend and emerging trends, regulatory environment, legislative spend, strategic national needs and our clients' business plans, and internal factors – including capability, skills, technology and thought leadership.

This results in a set of objectives and a clear implementation plan, considering known and emerging risks and opportunities over a broader horizon.

In addition to the financial plan and strategic objectives, there are targets for key accounts and strategic campaigns, resourcing and skills planning as well as research and development activity to support our clients to address complex infrastructure challenges.

The Board scrutinises and monitors the strategic and financial plans.

Assessing the Group's viability

The assessment of viability has been made considering the Group's principal risks and testing several plausible, but severe and prolonged scenarios. These downside scenarios reflect a combination of circumstances, including the potential impact of a significant decline in activity resulting from an inability to secure new work, damage to reputation from a major safety incident or data breach and associated fines, the impact on working capital decline arising from a major dispute on contract delivery, the loss of key management and inability to recruit the right capabilities, and a change in Government policy impacting investment and procurement programmes.

Impact of COVID-19

We continue to closely monitor the COVID-19 situation and will continue to follow UK Government guidelines. We have considered the potential on-going impact of COVID-19 in our scenario analysis.

Viability statement

In accordance with provision C.2.2 of the UK Corporate Governance Code, the directors have assessed the prospects of the Group over a longer period than the 12 months required by the 'Going Concern' provisions. Based on the results of this analysis, the Board confirms that it has a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the three-year period to 31 December 2023.

Going Concern

The Group's going concern statement is detailed in note 2 of the consolidated financial statements on page 128.

Strategic Report

Our 2020 Overview and Strategic Report on pages 1 to 45 have been reviewed and approved by the Board of Directors and signed on its behalf by Sharon Harris, Company Secretary.

16 March 2021

Leading a responsible business

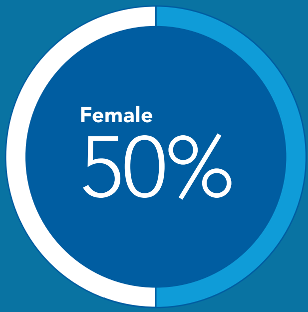
Board meeting attendance

Meetings in 2020

24

Director	Attendance
Paul Golby*	100%
Alex Vaughan*	100%
Anthony Bickerstaff[1]	100%
Helen Willis[2]	100%
Bishoy Azmy[3]	89%
Jacqueline de Rojas*	100%
Jane Lodge*[5]	100%
David McManus[4]	100%
Alison Wood*	100%

Gender representation on our Board



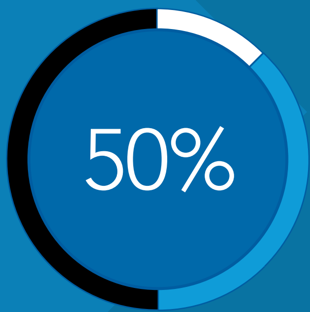
Female 4 Male 4

Ethnic groups represented on our Board

White

All other ethnic groups combined (excluding White minorities)

Board independence

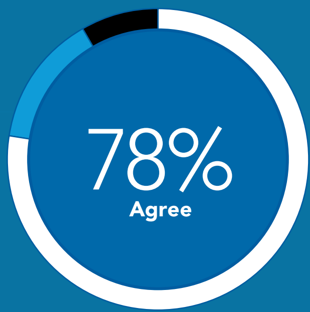


Chair# 1

Non-independent directors 3

Independent directors 4

Costain has taken the right steps to secure my safety and wellbeing on site or in the office



Agree – 78%

Neutral – 14%

Disagree – 8%

Governance improvements

- Introduction of additional commercial controls and contract management processes.
- Evaluation of risk profile of consultancy and digital contracts and cyber security.
- Endorsed some de-risking triggers in the pension scheme.

Examples of key Board decisions

- Capital raising to strengthen the balance sheet.
- Ambition to achieve whole life carbon net zero on or before 2035.
- Divestment of some non-core businesses.
- COVID-19 mitigation measures.
- Director changes.
- 2021 budget.

Footnotes:

Board changes (in 2020)

1 Anthony Bickerstaff stepped down from the Board on 30 November 2020 as CFO.

2 Helen Willis joined the Board on 30 November 2020 as CFO.

3 Bishoy Azmy joined the Board on 19 June 2020 as non-independent non-executive director representative of the shareholder ASGC. Bishoy was unable to attend one unscheduled Board meeting due to a prior commitment.

4 David McManus stepped down from the Board on 19 June 2020 as non-executive director.

Board changes (in 2021)

- Tony Quinlan joined the Board on 1 February 2021 as non-executive director and future chair of the Audit Committee and therefore is not shown in the table above.

5 Jane Lodge will step down from the Board as senior independent director and chair of the Audit Committee at the conclusion of the 2021 AGM.

* Total of 24 meetings for those in post during the full 2020 year.

The chair was independent on appointment.

Board of Directors

Experienced and effective leadership

Dr Paul Golby

CBE, FREng, FIET, FIMechE, FEI, FCGI

Non-Executive Chair

Appointment
May 2016

Skills and experience
Paul Golby was appointed as chair of Costain in May 2016. A fellow of the Royal Academy of Engineering, Paul has held a variety of roles within the engineering and energy industries. Following an early career with Dunlop Holdings plc and BTR plc he joined Clayhithe plc, becoming an executive director in 1992. In 1998, Paul joined East Midlands Electricity plc as managing director and following its acquisition by PowerGen (subsequently E.ON UK plc) was appointed executive director, UK operations. In 2002, Paul became chief executive and later executive chair, stepping down from the E.ON Board in December 2011. Paul was also non-executive chair of AEA Technology Group plc (2009–2012), chair of Engineering UK (2010–2016) and pro chancellor and chair of council of Aston University (2009–2017). He was chair of the Engineering and Physical Sciences Research Council (2012–2018) and a member of the Prime Minister's Council for Science and Technology (2010–2019).

External appointments
Non-executive director and chair of the safety, environment and health committee of National Grid plc, board member of the ERA Foundation and chair of the National Air Traffic Services (NATS Holdings Ltd).

C

Alex Vaughan

BSc (Hons) FRICS, Dip IoD, FIoD

Chief Executive Officer

Appointment
May 2019

Skills and experience
Alex Vaughan was appointed CEO in May 2019. Prior to this he was managing director of the natural resources division with responsibility for Costain's services to water, oil and gas and power clients as well as the development of client facing technology solutions across the Group. He held this position from 2013. Alex is qualified as a chartered quantity surveyor. He has worked on infrastructure projects in the UK and internationally, as well as having held a number of corporate roles including Group HR director and corporate development director. In 2009 he completed the Harvard Business School Advanced Management Program (AMP).

External appointments
Chair of the CBI regional council.

Helen Willis

ACA, BSc

Chief Financial Officer

Appointment
November 2020

Skills and experience
Helen Willis was appointed CFO in November 2020. She has significant experience in senior finance roles, including most recently as chief financial officer of De La Rue. Prior to this, Helen worked at Premier Farnell between 2014 and 2017, including as chief financial officer from 2015. She has also held senior finance roles at Pelican Rouge, AZ Electronic Materials, and HSS Hire.

Committee membership

Member of the Remuneration Committee
Member of the Audit Committee
Member of the Nomination Committee
C Chair of Committee

Experienced and effective leadership continued

Jane Lodge
FCA, BSc

Senior Independent Director

Appointment
August 2012

Skills and experience
Jane Lodge was appointed as the senior independent director in May 2018 having been a non-executive director since August 2012 and chair of the Audit Committee from the end of October 2012. Jane spent 35 years at Deloitte LLP (UK), 25 as an audit partner advising global companies, particularly in the manufacturing, house-building and property and construction sectors. She was senior partner of the Birmingham office and the Deloitte UK Manufacturing Industry Sector. Jane was previously a non-executive director and chair of the audit committee, Moorgate Industries Limited (2014–2015), Devro PLC (2012-2020) and Sirius Minerals plc (2015-2020 when the company was acquired by Anglo American plc) and a non-executive director of Black Country Living Museum Trust Limited.

External appointments
Non-executive director and chair of the audit committee at DCC plc. Non-executive director and chair of the audit and risk committee at Bakkavor Group plc. Non-executive director of Glanbia PLC and the Bromsgrove School Foundation.

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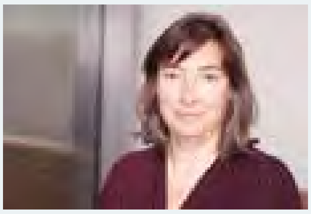


Alison Wood
MBA, BA

Independent Non-Executive Director

Appointment
February 2014

Skills and experience
Alison Wood was appointed as a non-executive director with effect from 1 February 2014 and was appointed as chair of the Remuneration Committee from the beginning of April 2014. Alison is the former global director of strategy and corporate development at National Grid plc (2008–2013). Before that, Alison spent nearly 20 years in a number of strategy and leadership roles at BAE Systems plc including group strategic development director. Alison has also held non-executive director positions at BTG plc (2004–2008), Thus Group plc (2007–2008), Cobham plc (2011–2020) and e2v technologies plc (2013–2017) where she was senior independent director.

External appointments
Non-executive director and chair of the Remuneration Committee at TT Electronics plc, Cairn Energy PLC, Oxford Instruments plc and the British Standards Institute (a non-listed entity).

C

Bishoy Azmy
MBA, BSc

Non-Independent Non-Executive Director

Appointment
June 2020

Skills and experience
Bishoy Azmy was appointed as a non-executive director in June 2020. Bishoy is the CEO of ASGC, a construction conglomerate with its headquarters in Dubai, UAE. As CEO and a member of the ASGC Executive Board, he has been responsible for developing ASGC's expansion strategies, overseeing the group's digital transformation and optimising operations across diverse construction sectors.

Bishoy is an active member of the Young Presidents Organization (YPO) and an associate of the Chartered Institute of Arbitrators. Bishoy graduated from the American University in Cairo with a BSc in Construction Engineering (2002). He is a PMI Project Management Professional (2006) and also holds a masters in international construction management from the University of Bath, UK (2007) and an MBA from London Business School, UK (2013).

External appointments
CEO of ASGC, a shareholder of Costain Group PLC.

Jacqueline de Rojas

CBE

Independent Non-Executive Director

Appointment
November 2017

Skills and experience
Jacqueline de Rojas was appointed as a non-executive director with effect from 20 November 2017. As president of techUK she is a leader in the UK technology sector and an experienced non-executive director who has held executive positions at global blue-chip software companies such as Citrix Systems, CA Technologies, McAfee and Novell. Jacqueline was previously a non-executive director of AO World Plc and Home Retail Group prior to the divestment of this group. She is the co-chair at the Institute of Coding and advises the board of accelerateHer to address the underrepresentation of women in technology. Jacqueline also lends her support to the Girlguiding Association and is an executive mentor at Merryck & Co. She was awarded a CBE for services to international trade in technology in the 2018 New Year Honours list.

External appointments
Non-executive director and senior independent director at Rightmove plc and non-executive director and board member responsible for employee voice at FDM Group (Holdings) plc. President of techUK and chair of Metapraxis Ltd.

Tony Quinlan

ACA, BSc

Independent Non-Executive Director

Appointment
February 2021

Skills and experience
Tony Quinlan was appointed as a non-executive director in February 2021. He is a chartered accountant, an experienced non-executive director and audit chair with experience as a public company chief executive and finance director. He was previously chief financial officer (2015) and chief executive officer (2016) of Laird PLC, chief financial officer of Drax Group plc (2008–2015) and held senior finance roles at Marks and Spencer plc (1992–2008). Tony was also previously senior independent dirctor and chair of the audit committee for the Port of London Authority.

External appointments
Non-executive director and senior independent director of Hill & Smith Holdings PLC and non-executive director of Associated British Ports. Adviser to Laird.

Sharon Harris

LLB

General Counsel and Company Secretary

Appointment
September 2020

Skills and experience
Sharon Harris trained as a solicitor at Norton Rose Fulbright and worked as a solicitor at Simmons & Simmons. She is a general counsel and company secretary with listed company experience gained in multiple sectors, including energy and defence. She has considerable international and domestic experience of legal, commercial and governance matters.

Committee membership

Member of the Remuneration Committee

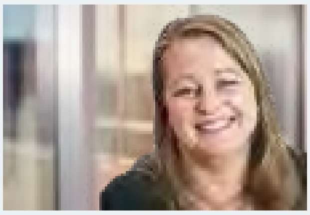
Member of the Audit Committee

Member of the Nomination Committee

(C) Chair of Committee

An experienced leadership team to deliver the strategy

The Group Executive Board, chaired by Alex Vaughan, focuses on running the business and delivering the Group strategy. The members are:



Dr Maxine Mayhew

FioD, PhD

Managing Director – natural resources

Appointment

November 2018

Skills and experience

Maxine Mayhew was appointed managing director of the natural resources division in May 2019. She joined the business in 2017 and previously held the positions of water sector director and Group capability director, responsible for Costain's capability including technology, consultancy, complex delivery and asset optimisation. After completing a PhD in wastewater treatment, Maxine has held a variety of roles in her 20 years in the water industry focused on leadership, innovation, commercial development and strategy delivery across all aspects of the industry from operations and engineering through to central support services (marketing, supply chain, SHEQ) and retail operations.

External appointments

Senior independent director of Low Carbon Contracts Company and Electricity Settlements Company and an independent council member for Cranfield University.

Sue Kershaw

BSc (Hons) Civil Engineering

Managing Director – transportation

Appointment

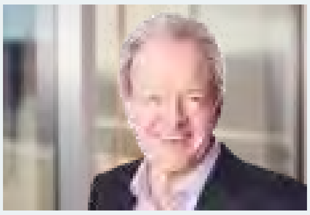
March 2020

Skills and experience

Sue Kershaw has a strong track record of driving complex, high profile transport and construction programmes to delivery. Before joining Costain she was managing director, Infrastructure Advisory Group at KPMG. Prior to that she was UK infrastructure head of programme management for KPMG Major Projects Advisory. Previous positions include director of rail, Europe at CH2M and deputy director of transport for the Olympic Delivery Authority. Sue is a civil engineer and started her career with Taylor Woodrow.

External appointments

President of the Association for Project Management, a member of the Mayor of London's Infrastructure Advisory Panel and a Royal Academy of Engineering visiting professor at the Bartlett School of Construction and Project Management, University College London.



Martin Hunter

BA, ACA

Group Financial Controller

Appointment

April 1999

Skills and experience

Martin Hunter holds the position of Group financial controller and has held a number of head office finance positions since 1984. Previously, Martin worked for Stoy Hayward, a London based firm of chartered accountants. He is a member of the Institute of Chartered Accountants in England and Wales.

Alex Vaughan

BSc (Hons) FRICS, Dip IoD, FIoD

Chief Executive Officer

Helen Willis

ACA, BSc

Chief Financial Officer

Sharon Harris

LLB

General Counsel and Company Secretary

David Taylor

FRICS, FIoD

Group Commercial Director

Appointment

January 2015

Skills and experience

David Taylor joined the Company in 2009 and was appointed to the Executive Board as Group commercial director in January 2015. He has held a number of senior leadership roles within the business and is currently responsible for the commercial, supply chain and procurement functions. David is also executive sponsor for business improvement including the delivery of operational excellence across the Group's portfolio of complex delivery projects. Since December 2020, David is the executive sponsor for Wellbeing for the Group.

Prior to joining Costain, David acquired more than 25 years' experience with Taylor Woodrow where he held the position of commercial director for its UK operations.

David is a Fellow of the Institute of Directors and a Fellow of the Royal Institution of Chartered Surveyors.

Catherine Warbrick

Group HR Director

Appointment

September 2019

Skills and experience

Catherine joined Costain in 2006 and has performed a number of roles, most recently as director of learning and development and corporate responsibility and prior to that as investor relations director. Highlights of her career with Costain include developing and implementing the Group's first Corporate Responsibility (CR) strategy, achieving Platinum status in Business in the Community's CR Index in 2013 and driving change to achieve the Group's recognition in the Times Top 50 Employers for Women 2018–2020, and being cited as a game changer in 2019 for Costain's work on gender parity in early careers recruitment. Catherine graduated with an honours degree in Environmental Science.

Nathan Marsh

BSc Econ Hons

Chief Digital Officer

Appointment

October 2019

Skills and experience

Nathan Marsh was appointed chief digital officer in October 2019. Nathan brings over 20 years' experience working in digital transformation with a particular focus on planning and enabling digital capabilities across the UK's critical national infrastructure. Nathan is experienced in leading client and consulting businesses to design and deliver digitally-enabled programmes with new commercial structures, leveraging technology and new operating models across sectors including government, digital infrastructure, future mobility, defence, capital markets and strategic risk. He has helped develop the Robotics and Artificial Intelligence, Rail and Connected & Autonomous Mobility Sector Deals. His career history includes working in the US and UK with AON, Atkins-SNC Lavalin, McKinsey & Co and EY and seven years as an army officer.

External appointments

Zenzic Advisory Board, CBI Public Sector Partners Council and the CBI AI & Digital Ethics Advisory Board, Bristol Robotics Laboratory Advisory Board and the St Gobain Global Sustainability Advisory Board.

The Board has ensured robust governance practices across the Group

"The Board recognises the value of good corporate governance to long-term sustainable business success."

Paul Golby Chair

Dear shareholder

The Board has continued to maintain the highest standards of corporate governance across the Group. It has done this by promoting integrity and openness, valuing diversity and being responsive to the views of shareholders and wider stakeholders.

The Board recognises the value of good corporate governance to long-term sustainable business success and has again demonstrated full compliance with the 2018 UK Corporate Governance Code (the 2018 Code).

Strategy

The Board continued to monitor implementation of the Leading Edge strategy, aimed at enhancing stakeholder value by more closely aligning our integrated services with our clients' changing, long-term infrastructure needs.

As part of this review, the Board looked at our purpose 'to improve people's lives' and vision 'to be the UK's leading smart infrastructure solutions company', to ensure these continued to be aligned to our Leading Edge strategy and our culture, and agreed that they do.

Risk management

Effective risk management is a fundamental aspect of the Group's operating, financial and governance activities. The disappointing arbitration decision in relation to the A465 Heads of the Valley road contract and the termination of the Peterborough & Huntingdon contract (see the Strategic Report on pages 14 to 45), have led the Board to oversee in depth actions taken by the Group to address the type of risk arising from these contracts. As a result, the Company is no longer pursuing energy engineering, procurement and construction (EPC) contracts and is instead focusing on long term investment programmes and not one-off capital projects. It has enhanced the strength of its overall contract management under the new Operational Excellence Model (see page 22). Oversight of how the Company manages its risks will continue to be an area of specific focus for the Board in 2021.

Engaging with stakeholders

It is important Costain builds trust by forging strong relationships with shareholders and key stakeholders. You can see from pages 26 and 27 how the Board engages with stakeholders. In particular, with regard to workforce engagement, the Board continued to use the extensive range of measures it has in place.

Board effectiveness review

In line with the 2018 Code's requirement to undertake an externally-facilitated Board evaluation at three-year intervals, the Board engaged Independent Audit Limited to undertake an effectiveness review of the Board and its Committees. Details of the review process and findings can be found on page 69.

Governance highlights

COSTAIN GROUP PLC BOARD OF DIRECTORS

Board evaluation
See more on page 69

Board activity
See more on pages 64 to 67

Stakeholder engagement
See more on pages 26 & 27

Board developments and diversity

After 14 years in the role, Anthony Bickerstaff stepped down as chief financial officer on 30 November 2020. Helen Willis' appointment as chief financial officer with effect from the same date was in accordance with the Board's succession plan and included an extensive internal and external search process led by Russell Reynolds Associates. Full details of this process are included in the Nomination Committee Report on page 81.

On 19 June 2020, Bishoy Azmy joined the Board as non-independent non-executive director and representative of ASGC, which has a 15.15% shareholding in the Company following the capital raising. David McManus, non-executive director, stepped down from the Board with effect from the conclusion of the AGM on 19 June 2020 after six years of dedicated service.

Since the year-end, Tony Quinlan has been appointed to the Board as an independent non-executive director with effect from 1 February 2021. As announced on 27 January 2021, Jane Lodge, senior independent director and chair of the Audit Committee, will be stepping down from the Board after nine years' service at the conclusion of the 2021 AGM and it is intended Tony Quinlan will succeed Jane as chair of the Audit Committee after the AGM.

The Nomination Committee has continued its focus on executive and senior leadership succession planning. During the year, we assessed the talent pipeline and identified the skills needed to support our strategy and business long-term. Sue Kershaw joined the Company on 23 March 2020 as managing director, transportation and Sharon Harris was appointed as general counsel and company secretary on 2 September 2020.

Further details are included in the Nomination Committee Report on pages 79 to 81.

As described on page 80, Board and Group-wide diversity continues to be an important focus for Costain. The Board currently has 50% female representation which exceeds the Hampton-Alexander Review voluntary target for women on boards of FTSE 350 companies.

Our principles on Board diversity also apply to the Executive Board and we currently have 56% (five of nine) of our Executive Board being female. It is important that we continue to build a diverse pipeline within the business, not just in relation to gender but also to social and ethnic backgrounds and cognitive and personal strengths. This is an area of focus for the Nomination Committee.

Remuneration

Our current remuneration policy was approved at our 2020 Annual General Meeting with over 90% of votes in favour of it. The Committee considers that the policy continues to be fit for purpose and appropriately supports our strategy.

In the application of the policy, we have taken into account the shareholder experience during 2020 and in particular the impact on the share price.

Please see the Directors' Remuneration Report on pages 82 to 105 for more information.

On the following pages we explain our approach to corporate governance, demonstrating how the Board and its Committees have fulfilled their responsibilities to ensure robust governance practices are embedded throughout the Company.

Dr Paul Golby CBE
Chair
16 March 2021

Compliance with the UK Corporate Governance Code

As a premium listed company on the London Stock Exchange, and in respect of the financial year ended 31 December 2020, the Company is reporting in accordance with the 2018 UK Corporate Governance Code (the 2018 Code) which sets out standards of good practice in relation to the following principles: (i) board leadership and company purpose, (ii) division of responsibilities, (iii) composition, succession and evaluation, (iv) audit, risk and internal control and (v) remuneration. The 2018 Code is published by the Financial Reporting Council (FRC) and is available on its website www.frc.org.uk. Costain was compliant with the provisions of the 2018 Code in 2020.

The Audit Committee Report on pages 74 to 78, the Nomination Committee Report on pages 79 to 81 and the Directors' Remuneration Report on pages 82 to 105 are also incorporated into this report by reference.

Board engagement with the workforce

Engagement with and feedback from the workforce are vital to maintaining a sustainable business. This is not limited to Company employees but also includes contractors and agency workers. In compliance with the 2018 Code, we have adopted a workforce engagement mechanism. This involves direct contact between directors and a diverse cross section of the workforce through a range of engagement activities. In addition, the Board continues to use a number of recognised indicators of culture (see page 63).

Staff roadshows

- In 2020 the annual 'Costain in Business' staff roadshow was held virtually. There were 24 sessions from 14–17 September 2020, with each day focused on one element of the strategy as follows:
  - Being Leading Edge
  - Improving lives and delighting our clients
  - Unlocking our capabilities
  - Being at our best.
- To facilitate two-way communication, polls were conducted during many of the sessions and there was a facility to ask questions of presenters. Questions could be raised anonymously to create a more open dialogue.
- Jacqueline de Rojas, non-executive director, participated in the session 'Working together across our sectors' where she joined the interactive session with members of the divisional leadership team. Jacqueline talked about how technology, particularly as evidenced during the COVID-19 pandemic, poses significant opportunities and how digital and consultancy can be successfully combined with infrastructure delivery.
- Participation levels augmented from 28% in prior years to 54% of employees for the live sessions, reaching over 1,750 employees with a total of 6,128 views of the live sessions.
- Each session was recorded enabling those not able to attend live to catch up at a later date.
- As a business, we used these sessions to reconnect, inspire, motivate and inform our teams after six months of working differently. As a result of the roadshow, it was reported that:
  - 74% of employees felt reconnected to the One Costain team
  - 66% felt more positive about working at Costain and excited and optimistic about the future
  - 66% felt motivated to perform in their role to help Costain achieve its objectives
  - 67% felt more informed about how they can contribute to the future success of the Group.

Less than 10% of respondents answered negatively. The Company has taken steps to address this feedback by the 'You spoke we listened' campaign (see following page).

Monthly leadership briefings

Every month the CEO has a 30-minute telephone call with the senior leadership team. The purpose of the call is to update senior leaders on our business performance and priorities, together with any important messages from our stakeholder engagement processes. This process enables our senior leaders to better communicate key messages to their teams. The format is a 10-minute update with a short leadership message from the CEO, followed by a Q&A session. Themes and key messages from the Q&A sessions are communicated to the Board by the CEO via his Board Report and weekly updates.

In 2020, to support a broader level of engagement, other members of the Executive Board participated in the Q&A session.

Additionally, there are bi-weekly blogs from our CEO and members of our Executive Board to all staff. During the year these blogs have covered:

- progress updates on delivering the strategic priorities
- reinforcement of the steps needed to ensure we manage project risks effectively
- feedback on lessons learnt on collaboration, client focus, operational excellence, accelerating digital and remote working
- the good progress made towards our goal of achieving net zero carbon by 2035
- guidance on COVID-19 and measures staff could take to enhance their wellbeing and continue to thrive during the pandemic
- recognition and celebration of achievements of our people through the Leading Edge Awards (see page 63)
- a thank you to staff for continuing to look after each other and our communities, including a focus on social value, together with an update on inclusion and the employee networks.

The key results from the Your Wellbeing survey were communicated back to employees and were as follows:

- 69% of employees agreed that Costain cares about their wellbeing with 60% rating their wellbeing as good/excellent.
- 79% of employees agreed/strongly agreed their line manager supports them.
- 84% of employees agreed/strongly agreed Costain is taking the right steps to see the Company and employees through the COVID-19 pandemic.

The Company reviewed and analysed feedback from the Wellbeing survey, the Leadership Impact Day in October and the 'Costain in Business' virtual roadshow in September. This resulted in a 'You spoke we listened' campaign launched in November which was organised on five Group-wide themes:

1. Increasing guidance on dynamic and flexible working, supporting every employee to thrive.
2. Consolidating COVID-19 guidelines to simplify and clarify communications.
3. Giving all employees an additional day's annual leave on their birthday in 2021 in recognition of their resilience, hard work and professionalism during the pandemic.
4. Improving support for line managers in the form of training courses.
5. Encouraging virtual social interaction, recognising home working for some can be isolating.

A new employee forum group called 'Your Voice' was launched at the roadshow in September. Eight champions were selected representing all sectors and capabilities. The first meeting was held in January 2021. Outputs from the forum will be fed back to the Board which will consider the appropriate action to be taken.

Site visits

Typically non-executive directors would regularly carry out engagement tours on our projects and sites in person to gain further insights into the business and to examine in particular our health, safety and environmental performance.

As part of these visits a 'question and answer' session is normally held with members of the site team (including staff, operatives and members of the supply chain) to allow two-way communication with the Board member. At the end of each visit the non-executive director returns a form to the general counsel and company secretary capturing key information and feedback from the visit. Relevant themes are then discussed at Board meetings and appropriate actions agreed.

Recognising the impact of COVID-19, most visits were held virtually in 2020. Some case studies of site visits follow:

Case study 1 – AWE

In August 2020 Jacqueline de Rojas visited the AWE site. This workforce engagement opportunity comprised both an introduction, briefing and closing debrief held virtually with the contract leader, together with a physical site visit. The latter comprised a safety briefing and site activity brief, followed by a site tour accompanied by a member of onsite management and two graduates. The visit concluded with a question and answer session with around 40 employees which included many questions on strategy.

Social distance was maintained at all times.

In her feedback Jacqueline de Rojas commented: "Well done for managing the client so positively but most importantly for creating a culture that is inclusive and collaborative."

The below site visits were held virtually unless otherwise indicated:

Paul Golby	Gatwick Station, Thames Tideway, Dunscroft Office (Industrial cooling), United Utilities MSP
Jacqueline de Rojas	A14 Cambridge*, Gatwick Station, AWE (in person)
Jane Lodge	A465 Heads of the Valley, Thames Tideway, RDP East, CMDP waste water treatment plant
Alison Wood	Hammersmith Temporary Bridge, Severn Trent (Finham Site), Preston Western Distributor (in person), C610

* Drone footage used to give overview of the site.

Case study 2 – Thames Tideway

Jane Lodge undertook a leadership engagement tour of Thames Tideway on 15 July 2020. Although the visit was following the initial lockdown, it was deemed that non-essential site visitors still posed a risk to the project and therefore the project looked to alternative solutions to make the site visit possible. This was enabled through the use of technology which allows the wearer to provide real time video footage and communication to remote users.

Paul Golby undertook a virtual leadership engagement tour to Thames Tideway on 30 September 2020 at which lessons learned from the first site visit were adopted. The COVID-19 measures which the project team had in place for the workforce were outlined. These measures began from the workforce's commute to site. Special arrangements were in place which included additional bicycle parking and the use of a local carpark to minimise the number of people reliant on public transport. The chair observed other measures which had been adopted on the project including the wearing of social distancing watches which beep when in close contact with another individual, the wearing of face coverings and COVID-19 PPE, one-way walkways, perspex desk enclosures and health questionnaires.

Senior site employees answered questions using the real time technology and gave explanations to the working operations and associated safe systems of work which were being adopted.

After his visit to Thames Tideway, the chair reported he was impressed with the measures in place to facilitate a safe return to work and to improve efficiency.

Other

Each of our non-executive directors also acts as a mentor to a participant on our executive development programme.

Delivering effective decision-making and meeting corporate governance standards

The Group's organisational structure is established and overseen by the Board and designed to enable effective decision-making and to meet corporate governance standards.

A diagram illustrating the structure is shown here:

COSTAIN GROUP PLC BOARD OF DIRECTORS

Our Board

Key responsibilities:

- The Board is collectively responsible for the management of the Company. The Board's main role is to create long-term sustainable value for shareholders by providing entrepreneurial and prudent leadership and taking into account the interests of all stakeholder groups. It does this by setting the Company's strategic priorities and overseeing their delivery, ensuring that the necessary financial and other resources are available, and by maintaining a balanced approach to risk within a framework of effective controls.

BOARD COMMITTEES

Board Committees

Key responsibilities:

- The Board has established Committees which are responsible for audit, remuneration and appointments and succession. Each Committee plays a vital role in helping the Board to ensure that high standards of corporate governance are maintained throughout the Group.

AUDIT COMMITTEE

NOMINATION COMMITTEE

REMUNERATION COMMITTEE

Audit Committee

Key responsibilities:

- Monitors and reviews the integrity of Costain's financial statements.
- Manages the relationship with the external auditor.
- Oversees the Company's systems for internal control and risk management.

Nomination Committee

Key responsibilities:

- Monitors and reviews the composition and balance of the Board and its Committees to ensure Costain has the right structure, skills, diversity and experience in place for the effective management of the Group.
- Reviews management training and succession planning in respect of the Company's senior executives.

Remuneration Committee

Key responsibilities:

- Determines the remuneration for the chair, executive directors and certain senior management.
- Oversees Costain's overall remuneration policy, strategy and implementation. This includes the alignment of incentives with reward and culture and takes into account employees' pay and rewards when setting the policy for directors' remuneration.

EXECUTIVE BOARD

Executive Board

Key responsibilities:

- Accountable for the day-to-day running of the business, delivering the Group strategy and monitoring the operational and financial performance of the Group.

See Executive Board biographies on pages 50 and 51

INVESTMENTS COMMITTEE

HEALTH AND SAFETY COMMITTEE

RISK COMMITTEE

Investments Committee

Key responsibilities:

- Responsible for allocating the Group's work winning resources and authorising certain investments.

Health and Safety Committee

Key responsibilities:

- Responsible for setting and monitoring compliance with the Group's health and safety policies.

Risk Committee

Key responsibilities:

- Identifies emergent risks.
- Considers principal risks and establishes their risk trend.
- Preliminary review of risk appetite.

How we divide up our responsibilities

Chair	The chair, Paul Golby, is responsible for the effective leadership and operation of the Board. He promotes high standards of governance and supports and guides the CEO.
Chief executive officer	The CEO, Alex Vaughan, is responsible for managing the business of the Company through the implementation of policies and strategies as approved by the Board. Alex is responsible for maintaining dialogue with the chair, the Group's shareholders and other stakeholders.
Senior independent director	The role of the senior independent director involves providing a sounding board for the chair, acting as a point of contact for shareholders to raise concerns should they arise and meeting with the other non-executive directors, without the presence of the chair or executive directors, to discuss such matters as the appraisal of the chair's performance. The senior independent director is Jane Lodge.
Non-executive directors	The non-executive directors all bring valuable experience, insight and perspective to the Board, through their former or current executive roles and their other non-executive positions, which are held across a wide range of businesses and disciplines. This facilitates robust decision-making by the Board as a whole. The non-executive directors, including the chair, also meet without the executive directors being present from time to time as a matter of good corporate governance.

The Board Committees are governed by terms of reference which are reviewed annually and can be viewed in the corporate governance section of the Company's website. The members of each Committee and details of their attendance are shown on pages 47 to 49 and 68.

Board composition and diversity

The Board is committed to ensuring that it remains diverse and has set a clear policy on boardroom diversity which is reviewed every year. We believe that diversity in all its forms is a strategic business issue and is essential for introducing different perspectives into our discussions and decision-making.

Our policy applies to the whole workforce including the Board and Executive Board. The Board has been supportive of the boardroom diversity targets set by the respective Hampton-Alexander and Parker Reviews and has worked hard in recent years to achieve these important objectives:

- By 2020 women to make up at least 33% of a company's board positions – **Achieved in 2017.**
- FTSE 250 companies to have at least one non-white director on their boards by 2024 – **Achieved in 2017.**

Currently, four of our eight directors are women (50%) and two directors are BAME. The Board's commitment to diversity covers the whole organisation and it places a high emphasis on the importance of developing diversity in senior management. The Board has overseen the Group's aim to increase female representation within senior positions across the Group. In 2020 we achieved the significant milestone of 50% of our Executive Board being female. We have been encouraged to see our senior female management population increase from 15% to 30% over the past five years (see page 29).

In 2020 succession planning for our senior management population also considered ethnic diversity, with the aim of increasing the BAME representation in our development programmes. We have worked with our REACH (religion, ethnicity and cultural heritage) employee network to increase the voluntary disclosure of ethnicity in our employee data.

Looking beyond the Board there are a number of ongoing activities across the Group to prioritise diversity and inclusion:

We launched our Disability and Wellbeing network. The launch event centred around a 'let's talk about disability' session and was attended by over 150 people

We were proud to be named as a Times Top 50 Employer for Women for a third consecutive year in 2020

Our REACH network held 10 'let's talk about race' sessions attended by colleagues of all levels, including Board members

In collaboration with Stonewall and our LGBT+ and allies network, **we produced a 'How to transition at work' guide**

Female representation

Level	Minimum target by June 2020	Actual 30 June 2020	Actual 30 June 2020 (Number)	Actual 31 Dec 2020	Actual 31 Dec 2020 (Number)	Actual 16 March 2021
Board	33%	43%	3 of 7	57%	4 of 7	50%
Executive Board	33%	44%	4 of 9	50%	4 of 8	56%
Senior Management	33%	30%	10 of 33	30%	10 of 33	36%

We worked with our employee networks to understand and address the disproportionately higher **COVID-19 risk to our BAME colleagues** and provided guidance to our line managers

The theme of one of our leadership impact days was centred around 'thriving in the workplace' recognising the individual needs of our people to be at their best

To demonstrate our commitment to diversity and inclusion we signed up to the Valuable 500, CBI Change the Race Ratio and the BITC Race at Work Charter

As part of our effort to raise awareness of race issues, **we launched an over-subscribed reverse mentoring programme** and look forward to commencing the next intake in 2021

We were accredited with a silver award through the Ministry of Defence Employer Recognition Scheme. The award recognises the efforts Costain has made to support veterans, reservists and their spouses

We have worked hard to ensure that development opportunities are accessible to all. In 2020, 40% of participants on our emerging leaders programme were female and 10% BAME. In early careers recruitment, 30% of our graduates and 53% of apprentices were female and 26% of our graduates and 16% of apprentices BAME

At Costain, our clear purpose is to improve people's lives

Our purpose is underpinned by our Leading Edge strategy which closely aligns our services to meet the changing needs of our markets and clients. We are confident this strategy will enhance our offer to clients, deliver higher margins and generate long term stakeholder value.

Costain's culture is the values, beliefs and behaviours that characterise our Company and guide our practices. It is defined through the Costain Way. This sets out what we expect from our employees and workforce and how we expect business to be carried out. Our senior leadership team play a critical role in setting the tone of the organisation and championing the behaviours we expect to see. All senior leaders are expected to carry out engagement tours to our sites at least once a month to obtain feedback from the workforce on such issues as health, safety and wellbeing and to highlight our values and beliefs.

Our purpose is to **improve people's lives**

Our vision is to be the **UK's leading smart infrastructure solutions company**

Our 'Leading Edge' strategy **enables us to achieve our purpose and vision**

All of which are underpinned by our values:

C	**Client focused**
O	**Open and honest**
S	**Safe and environmentally aware**
T	**Team players**
A	**Accountable**
I	**Innovative and continuously improving**
N	**Natural choice**

Recognised indicators of culture reviewed by the Board and its Committees include:

Outputs from staff surveys

See pages 54 & 55

Whistleblowing reports

See page 78

Internal audit reports and findings

See page 77

Health and wellbeing performance

See page 55

Safety performance, initiatives and trends including both leading and lagging indicators

See page 29

Progress in respect of inclusion and diversity

See pages 60 & 61

Rewarding the right behaviours in our quarterly Leading Edge awards:

Being Curious

The Costain automation solutions team won a Leading Edge award for using our in-house digital capabilities to create a robotic process to capture CO_2 vehicle emissions from staff vehicles within the expenses platform. The robotic application exports information without human input, running swiftly and without error. As data accumulates this will allow us to calculate the carbon footprint of our vehicle fleet, supporting our Climate Change Action Plan objectives. See more on our Climate Change Action Plan on page 30.

Being Leading Edge

Bryan Ormond and Arkadiusz Stasiak have been working to develop digital solutions that drive and improve efficiency on their contract. The work includes a digitised live risk and method statements (RAMs) register, easier data entry for RAMS, an automatically updated CDM hazards register, management dashboards, smart reporting templates, red line drawing system and timesheet improvements as well as introducing reminder robots. The solution has delivered over £85,000 of savings per year and further one off savings, making us safer, faster, better and more efficient – truly Leading Edge!

Key Activities

The following summarises the Board's main activities over the course of the year:

Key area of activity	Matters considered
Safety, Health and Environment	At each scheduled Board meeting, monitored safety, health and environment performance against the WiiSE strategy (see page 28). Reviewed how the Company adapted its working practices to meet the COVID-19 conditions and addressed the impact on our employees' wellbeing (see pages 20 and 21). Considered and approved the Climate Change Action Plan and targets (see page 30).
Strategy	Reviewed the progress made in delivering the Group's Leading Edge strategy. In addition to discussions at scheduled Board meetings, an interactive strategy session attended by members of the Executive Board was held. Received presentations from third party advisers on strategic opportunities and the market landscape and reviewed internal reports on market developments and industry trends. Spent a significant amount of time considering the appropriate capital structure for the Group to enable the Company to capitalise on the growing infrastructure market opportunities in line with its strategy, have a strong balance sheet and provide additional headroom to effectively manage working capital flows in the business. Considered and approved divestment opportunities.
Business and financial performance	Received detailed updates on our business performance against our strategic priorities and KPIs. Reviewed and discussed financial performance against budget, including exceptional items and any deviations from expectations. Reviewed and approved significant bids. Considered the Company's performance on major contracts and the Company's strategy in managing contractual disputes. Reviewed and approved the Company's tax strategy. Reviewed and approved the Annual Report and Accounts and preliminary results announcement, the interim results statement and the dividend policy. Received reports on analyst and investor feedback. Received updates on the Group's defined benefit pension scheme and related governance.
Risk and opportunity	Conducted an in depth review of improvements to governance and controls around contract bid, execution and delivery (see page 22). Undertook 'deep dive' reviews of our principal risks to reassess these in light of the risk mitigation actions undertaken. Such reviews included an evaluation of our contract management, consultancy, digital and cyber security risks. Evaluated the impact of COVID-19 on the Group's operations and financial performance as government guidance and regulations changed in line with the evolving pandemic. Monitored the impact of Brexit on the Company's supply chain.

Key area of activity	Matters considered
Culture and governance	Considered and approved recommendations from the Nomination Committee regarding Board succession planning. Conducted an externally facilitated Board effectiveness review. Further information about this process and the outcomes can be found on page 69. Approved the Group's Modern Slavery Statement, Gender Pay Gap Report and the Board's Diversity Policy. Received guidance on and approved the treatment of actual and potential directors' conflict of interest. The Board considered the potential conflict of interest of: (i) the chair in having oversight of the Company's dispute with National Grid on the Peterborough & Huntingdon EPC compressor contract in light of him being a non-executive director of National Grid; and (ii) the appointment of Mr Azmy as a non-independent non-executive director of the Company by virtue of Mr Azmy being the CEO of ASGC Construction L.L.C. (a 15.15% shareholder of the Company). Noted changes to the guidance note published by the Chartered Governance Institute (ICSA) on directors' general duties to reflect the requirement to report on compliance with Section 172 Companies Act 2006 (duty to promote the success of the company for the benefit of members as a whole and have regard to various stakeholder factors, see pages 26 and 27). Approved changes to the Board and Committees' terms of reference to reflect where applicable the updated model terms of reference published by ICSA.
Talent and people	Discussed succession planning and talent development for the Executive Directors and the Executive Board. Engaged with high potential candidates through presentations and 'deep dives' at Board meetings. Reviewed and discussed the feedback from the wellbeing pulse survey and virtual annual roadshow.

Principal decisions

In making the following principal decisions in 2020, the Board, in accordance with Section 172(1), has considered the outcome of stakeholder engagement (as set out on pages 26 and 27) as well as the need to maintain a reputation for high standards of business conduct and the need to act fairly between the members of the Company.

Key area of activity	Matters considered	Outcomes	Stakeholder group considered
Safety, Health and Environment	Sustainability and climate change commitment	The Board has adopted an ambition to achieve whole life carbon net zero on or before 2035 for all operations (including our client and supply chain footprints). Several leading KPIs have been set and progress is reported monthly across all levels of the organisation, including at Executive Board level and at each scheduled Board meeting. Details of the Climate Change Action Plan and how Costain has identified and addressed the material sustainability issues that affect Costain and its stakeholders are set out on pages 24 to 30.	
Strategy	Capital raising	On 11 March 2020, the Board announced it was considering a new equity capital raising, fully underwritten by HSBC, Investec and Liberum on a standby basis. On 7 May 2020, the Company announced details of a firm placing and placing and open offer. On 29 May 2020 new shares raising gross proceeds of £100m were issued in the Company following completion of the capital raising, with ASGC becoming a shareholder of 15.15% of the shares of the Company.	
	Financing	Costain agreed with its banks that the maturity date of its existing facilities (£179.0m as at 31 December 2020) would be extended from June 2022 to September 2023.	
	Delivery of Leading Edge strategy	The Board continued to ensure the Leading Edge strategy enhances value and supports the Company's culture and purpose. The 2021 budget and rolling three year business plan were approved by the Board following a comprehensive review of our strategic priorities and risks to the business by way of items at the October, November and December Board meetings. The plan takes into account our clients' changing requirements and includes plans for a number of enhanced ways of working. The Board decided to reduce its risk profile in the future by adopting contract risk mitigation actions, including no longer pursuing engineering, procurement and construction (EPC) contracts in the energy sector and by focusing on long-term investment programmes and not one-off capital projects (see page 22). The CEO updated the Board on the work undertaken by the business in assessing the implications of Brexit on the Group in some of his weekly reports (see page 27).	
	Sale of non-core assets	During 2020, the Board completed its strategy to divest its non-core business assets in Spain by selling the 624 berth marina concession. The Group also completed the sale of its legacy company that held property assets in Zimbabwe and, in August 2020, completed the sale of its equity share in its two remaining 'Building Schools for the Future' partnership companies.	

WORKFORCE SHAREHOLDERS CLIENTS SUPPLIERS COMMUNITIES AND ENVIRONMENT

Key area of activity	Matters considered	Outcomes	Stakeholder group considered
Business and financial performance	Trading updates	At various times in the year, the Company updated the market on trading after performance had been impacted by material factors such as COVID-19 and the A465 and P&H contracts (see pages 20 and 21, and 36 and 37).	
	Contract review and risk management	The Board conducted an in depth review of improvements to governance and controls around contract tender, risk and commercial management (see page 22).	
	Cash flow	The Board monitored regularly payment practices against the requirements of the Prompt Payment Code to which Costain Limited, the Group's major trading subsidiary, is a signatory.	
	Pension	Over a number of years, the Board has sought to address the deficit of the Costain Pension Scheme, a closed defined benefit pension scheme. During 2020, the trustee of the Pension Scheme reviewed the Scheme's investment portfolio and made the following changes which were endorsed by the Board: • increased the level of hedging against interest and inflation in the Scheme from 75% to 95% of funded liabilities • introduced some de-risking triggers whereby if the funding position is ahead of target due to better than expected investment returns, the Scheme will automatically sell some growth assets and buy more matching assets. As a result of the de-risking triggers introduced in 2020 being hit, the allocation to growth assets was reduced from 60% to 45%.	
	Dividends	Having regard to what it considered, in good faith, to be for the benefit of its shareholders, the Company declared no dividends in 2020 (see page 106).	
	COVID-19	To mitigate the financial impact of COVID-19 and protect the Company's cash position, the Board supported a number of prudent actions including: • making reductions to the Group's cost base and deferring capital expenditure • deferring PAYE and VAT payments • for three months, reducing non-executive directors' fees and executive directors' and senior leadership team's salaries by 30%, as well as reducing salaries to some extent for any employee earning more than £45,000 • using the Government's job retention scheme to furlough employees who were unable to work during the initial COVID-19 period.	
Culture and governance	Board appointments	The Board approved the appointment of Helen Willis as CFO with effect from 30 November 2020 (see Nomination Committee report on pages 79 to 81).	

Meeting attendance

The Board meets regularly, with seven scheduled meetings having taken place during the year. The directors' attendance record at the scheduled Board meetings and Board Committee meetings for the year ended 31 December 2020 is shown in the table below. Also shown below is the directors' attendance at unscheduled Board meetings in relation to the capital raising. This project was an intense period requiring multiple meetings, many at short notice, to receive updates on and consider, discuss and approve various aspects of the capital raising. Further ad hoc meetings were arranged as appropriate to deal with matters between the scheduled meetings such as commercial issues relating to contracts (see the Strategic Report on pages 36 and 37 for more information).

For the Board and Committee meetings, attendance is expressed as the number of meetings that each director attended out of the number that they were eligible to attend.

Board attendance	**Scheduled Board meetings** Maximum 7	**Board meetings relating to capital raising** Maximum 11	**Other ad hoc Board meetings** Maximum 6	**Audit Committee** Maximum 7	**Remuneration Committee** Maximum 4	**Nomination Committee** Maximum 5
Executive directors						
Anthony Bickerstaff[1]	6/6	11/11	6/6	6[a]	1[a]	1[a]
Alex Vaughan	7/7	11/11	6/6	7[a]	3[a]	4[a]
Helen Willis[2]	1/1	n/a	n/a	1[a]	–[a]	–[a]
Non-executive directors						
Paul Golby	7/7	11/11	6/6	7[a]	4[a]	5/5
Jane Lodge	7/7	11/11	6/6	7/7	4/4	5/5
Bishoy Azmy[3]	5/5	n/a	3/4	2[a]	2[a]	2/4
Jacqueline de Rojas	7/7	11/11	6/6	7/7	4/4	4/5
David McManus[4]	2/2	11/11	2/2	2/2	2/2	1/1
Alison Wood	7/7	11/11	6/6	7/7	4/4	5/5
Tony Quinlan[5]	n/a	n/a	n/a	n/a	n/a	n/a

1 Anthony Bickerstaff stepped down from the Board on 30 November 2020.

2 Helen Willis joined the Board on 30 November 2020 which was after the capital raising. No ad hoc meetings were held after Helen's appointment.

3 Bishoy Azmy joined the Board on 19 June 2020 which was after the capital raising. He was unable to attend one unscheduled Board meeting and two Nomination Committee meetings due to prior commitments.

4 David McManus stepped down from the Board on 19 June 2020.

5 Tony Quinlan joined the Board on 1 February 2021 and therefore was not eligible to attend any meetings in 2020.

a Not a member of the Committee – attendance at meeting by invitation. Anthony Bickerstaff did not attend Nomination Committee meetings relating to the appointment of the new CFO, nor did any director attend the Remuneration Committee for discussions on their own remuneration.

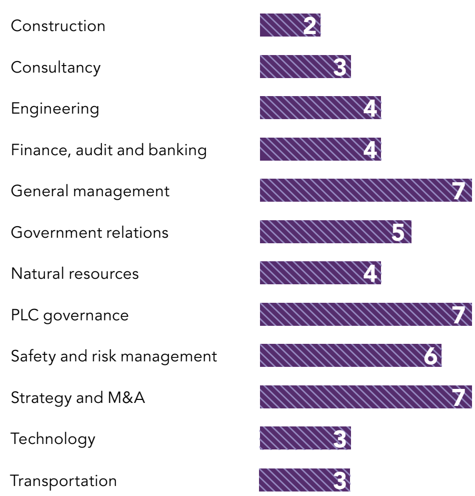
Board composition

The Board currently comprises the chair, two executive directors, four independent non-executive directors and one non-independent non-executive director. The membership of the Board and biographical details of all the directors can be found on pages 47 to 49.

The biographies illustrate that the non-executive directors have a range of business, sector and financial experience that is important and relevant to the management of the Company. The Board believes that there is an appropriate balance between executives and non-executives. The Board is enhanced by the varying lengths of service, gender balance and expertise of all the directors. The Board's skills and experience are depicted in the adjacent diagram.

The non-executive directors provide constructive challenge, strategic guidance and specialist advice. They also hold management to account.

Skills and experience (all 8 directors*)



* Self-assessment based on strong or very strong experience.

Board effectiveness

The Board has established a formal process for the evaluation of the effectiveness of the Board and its Committees.

For the 2020 financial year, the annual evaluation was externally-facilitated by Independent Audit Limited (IAL). IAL is an independent third party professional organisation with no other connection to the Company. The evaluation was conducted using its online assessment tool and also involved a review of a selection of Board and Committee papers. The evaluation was conducted under the direction of the chair, with support from the general counsel and company secretary.

The evaluation focused on good governance practices (including behaviours and culture), strategy, risk management, how the Board addressed the challenges faced by the Company during the year and its engagement with stakeholders.

The process involved each of the directors, and key employees who frequently have dealings with the Board and its Committees, completing an anonymous online questionnaire. In addition, IAL observed the December 2020 Board meeting, at which items for consideration included a detailed strategy item and the 2021 budget, together with the December 2020 Audit, Remuneration and Nomination Committee meetings. The findings were discussed with IAL in attendance at the Board meeting in January 2021.

Timetable

October 2020	• Tender conducted of external providers and consequent appointment of IAL. • Confirmed scope and areas of focus of the review.
November 2020	• Questionnaire tailored to the Company's needs issued to respondents.
December 2020	• Reviewed questionnaire responses and analysed results. • Richard Sheath of IAL observed the Board, Audit Committee, Remuneration Committee and Nomination Committee meetings. • Analysed results and drafted the report.
January 2021	• Final report discussed at Board meeting and recommended actions agreed.
Ongoing in 2021	• Post-review support.

Based on the review, the Board concluded that its strength continued to be demonstrated through its composition, diversity, clarity of roles and clear focus on strategy.

The Board considered that the directors continue to have sufficient time, knowledge and commitment to contribute effectively to the Board and its Committees, and that the Board as a whole demonstrates good practice on the key indicators of Board effectiveness.

Following the evaluation, the Board agreed to focus on the following areas in 2021; contract risk appetite and controls, delivery and communication of our strategy, and monitoring the culture change required to deliver our strategy.

IAL shared with the senior independent director observations on the chair's performance emerging from the self-assessment of the Board. Jane Lodge then discussed the findings of the assessment one to one with the other directors and then met with the chair to provide feedback.

The procedures, effectiveness and development of the Board will continue to be kept under review.

Progress made against the areas of focus that were identified during the 2019 internal evaluation are shown below.

2018 and 2019
internal evaluations

2020
external evaluation

2021
internal evaluation

Areas of focus identified in 2019:	Action taken in 2020:
Improving risk management	• This was a key area of focus for the Board in the year. The Board oversaw a number of actions to improve risk management, details of which are set out on pages 22 and 40 to 43.
Manner in which Board challenges management	• The Board had in depth challenging discussions on a range of matters throughout the year. • On the basis of the externally-facilitated review, the Board concluded there is a good relationship between the Board and the executive team based on trust and openness.
Visibility of action completion via KPIs	• The critical milestones to monitor success in delivering our strategy were considered at each scheduled Board meeting.

Board independence

Having due regard to the results of the externally-facilitated 2020 review of Board performance, the Board considers each of its independent non-executive directors standing for re-election continues to be independent in character and judgement and there are no relationships or circumstances which are likely to affect (or could appear to affect) the judgement of such independent non-executive directors. Bishoy Azmy is a non-independent non-executive director and represents the shareholder ASGC. The Board also confirms that these directors continue to perform effectively, that they demonstrate commitment to their particular roles, that they ensure proper time is devoted to Board and Committee meetings and should therefore be elected or re-elected at the forthcoming AGM.

After nine years' loyal service, Jane Lodge will not be standing for re-election at the 2021 AGM.

The current terms of appointment of all the directors are set out in the Directors' Remuneration Report on page 102.

At the time of his original appointment in May 2016, the chair, Paul Golby, was considered independent by the Board.

Board induction

On appointment, new members of the Board take part in a tailored induction programme, organised by the general counsel and company secretary.

The induction programme for new non-executive directors covers the following activities and meetings:

1. Meeting with the Board, its Committees and other external stakeholders

As part of the appointment process, a newly appointed director has meetings with the chair, the senior independent director and Committee chairs to build up their understanding of the Costain business and its markets. Additionally, they will have the opportunity to meet with other key advisers and stakeholders, including the Company's financial advisers and brokers.

2. Meeting with senior management and staff

A newly appointed director will spend time meeting the chief executive and chief financial officer. They will also have meetings with all the members of the Executive Board.

3. Understanding the business

A newly appointed director (accompanied by the relevant managing director) will carry out engagement tours at various operational sites. These tours will involve meeting with members of the project team, including the supply chain. They learn about the nature of each of the projects including health, safety and environment aspects, and obtain insights from the workforce. A feedback form is then returned to the general counsel and company secretary.

4. Training

An electronic induction pack is provided to ensure a thorough understanding of the role of the newly appointed director and the framework within which the Board operates. This is coupled with a training session with the general counsel and company secretary covering directors' duties, the Market Abuse Regulation and the Group's corporate governance practices and procedures. Newly appointed directors also undertake the Company's online health and safety, inclusion, information security, competition law and anti-bribery and corruption awareness training modules.

Induction of new CFO

In addition to the above, the CEO and general counsel and company secretary also arranged for Helen Willis, on appointment, to meet with representatives of the Company's banks, major shareholders, external auditor and members of the wider leadership team.

Ongoing Board training

As regards the continuing professional development of the executive and non-executive directors, Board members, independent of any formal training arranged by the Company, are encouraged to attend seminars and conferences on issues relevant to their appointment as directors of a public company, particularly matters concerned with corporate governance, audit and remuneration issues. In addition, Board site visits are considered essential to ensure that directors have a thorough understanding of the business operations and issues that affect the Group.

How the non-executive directors are kept informed

- Deep dive presentations from business sectors and functions.
- Visits to regional offices or operational sites (mostly virtual visits during the pandemic).
- Access to key executive personnel between meetings.
- Weekly reports from the chief executive officer.
- Monthly management accounts and regular internal reports.
- Updates on legal, regulatory and governance matters.
- Presentations from external advisers.

Health and Safety

- The Board considers health and safety its number one priority.
- All Board members hold a Construction Site Visitor Card certificated under the Construction Skills Certification Scheme or similar appropriate internal certification.
- The directors also take part in twice yearly leadership impact days which take place across all our sites. They complete a feedback form just as they do after site visits.
- As part of the Company's commitment to health and wellbeing, some members of the Board have undertaken mental health awareness training.

Operation of the Board

The chair sets the Board's agenda and ensures that adequate time is available for discussion of all agenda items. To discharge their duties, the directors are provided with full and timely access to papers prior to Board meetings via a fully encrypted electronic portal system. Directors have access to all information relating to the Group and are free to seek any further information they consider necessary. After each meeting, the general counsel and company secretary operates a comprehensive follow-up procedure to ensure that actions are completed as agreed by the Board.

Senior executives and high potential employees below Board level are invited to attend Board meetings from time to time to deliver presentations on issues that are relevant to their particular business sector or function. In 2020 they attended virtually due to the pandemic.

Prior to the pandemic, the directors set aside some days to combine scheduled Board and Committee meetings with visiting regional offices and operational sites. This provided the non-executive directors with an opportunity to meet both senior managers and other members of staff and to obtain a greater insight into particular aspects of the business and projects that the Company is engaged in.

In addition, between Board meetings, the chair and non-executive directors have access to the chief executive officer, chief financial officer and general counsel and company secretary to progress the Company's business. The chair and non-executive directors also receive a weekly report from the chief executive officer, monthly management accounts, internal audit reports and regular management reports and information, which enable them to scrutinise the Group and its management's performance against agreed objectives. The Board is also kept up to date on legal, regulatory and governance matters by both the general counsel and company secretary and external advisers.

All Board members have access to the advice and services of the company secretary, who is also the Company's general counsel. The general counsel and company secretary is responsible for ensuring that Board procedures and applicable rules and regulations are followed. The appointment and removal of the general counsel and company secretary is a matter reserved for Board approval. On 2 September 2020, Tracey Wood stepped down as general counsel and company secretary and was replaced by Sharon Harris.

The Board also obtains advice from professional advisers as and when required at the expense of the Company.

Corporate Responsibility

The Board receives reports from the Company's corporate responsibility director and monitors progress on a regular basis.

Diversity

Details of the Company's diversity policy, in relation to the Board and senior executives, can be found on pages 60 and 61 and in the Nomination Committee Report on page 80.

Details of the Company's Group-wide approach to issues of diversity and equality can also be found on pages 60 and 61 of this annual report.

Directors' external appointments

The non-executive directors may serve on a number of other company boards provided they continue to demonstrate the requisite commitment to discharge their duties to the Company effectively. Such external appointments are seen as being beneficial to the overall decision-making process of the Board as a whole. The Company also encourages, when appropriate, the executive directors to take up non-executive positions, with the prior consent of the Board, in the belief that such appointments broaden their skills and enhance the contribution which they can make to the Company's performance. Generally, no more than one such appointment may be undertaken by the executive directors.

Remuneration

A summary of the Company's remuneration policy approved in 2020 and how it has been implemented, together with the activities of the Remuneration Committee, can be found on pages 82 to 105 of the Directors' Remuneration Report.

Shareholder communication and engagement

The Company remains committed to maintaining good relationships with both institutional and private shareholders. There continues to be regular dialogue with institutional investors. Additional details of how the Company engages with shareholders can be found on page 26 of the Strategic Report.

The chair is available to discuss strategy and governance issues with shareholders. The senior independent director, Jane Lodge, is available to shareholders if they have any concerns that have not been, or cannot be, addressed through the normal channels of chair, chief executive officer or chief financial officer. In 2020, both Paul Golby and Jane Lodge met with shareholders.

The Company obtains feedback from its brokers, Investec and Liberum Capital, on the views of institutional investors on a non-attributed basis. The Board routinely reviews reports from its brokers on issues relating to recent share price performance, trading activity and institutional sentiment. The Board also receives copies of relevant analysts' reports on an ad hoc basis.

The Board regards the AGM as an important opportunity to communicate directly with shareholders. Typically the AGM provides shareholders with an opportunity to ask questions of the directors during the meeting and also on a more informal basis following the conclusion of the meeting, at which senior members of staff are also present. The AGM also normally gives shareholders an opportunity to listen to a presentation from the chief executive officer on the current trading performance and developments within the business.

At the time of the 2020 AGM in June 2020, due to the COVID-19 pandemic, the UK Government had prohibited public gatherings of more than two people. In light of these measures, the AGM in 2020 was run as a closed meeting and shareholders were not able to attend in person. The Company made arrangements such that the legal requirements to hold the meeting were satisfied through the attendance of a minimum number of employee shareholders, namely the CEO and general counsel and company secretary, and the format of the meeting was purely functional. The Board recognised the importance of the AGM to shareholders and was keen to ensure that they were able to exercise their right to participate in the meeting by voting. Registered shareholders were also able to submit their questions to the directors in advance of the meeting by email.

Shareholders may raise issues or concerns by contacting investor relations or by writing to the general counsel and company secretary (see contact details on page 185).

Accountability

Financial and business reporting

The Board is required by the 2018 Code to present a fair, balanced and understandable assessment of the Company's position and prospects and reference is made to the statement of directors' responsibilities on page 111 together with the statement on the status of the Company as a going concern and the financial Viability Statement on pages 44 and 45.

As can be seen from page 75 the preparation of this annual report involved input from a number of functions across the Group. The Board was involved at an early stage to enable review, challenge and discussion ahead of approving the final publication.

The Board also recognises that its responsibility to present a fair, balanced and understandable assessment extends to interim and other price-sensitive reports that the Company may publish from time to time, for example the update regarding the Peterborough & Huntingdon contract on 29 June 2020 and the trading update on 17 August 2020.

Business model

The Overview and Strategic Report on pages 1 to 45 give details of the Company's business model and the strategy for delivering the priorities of the Company.

Going concern and viability

The Group's going concern statement is detailed in note 2 of the consolidated financial statements on page 128. The long-term Viability Statement is set out on pages 44 and 45.

Risk and internal control

Risk management

The Board is responsible for undertaking a robust assessment of the principal risks facing the Group, as described on pages 40 to 43 of the Strategic Report. This includes those risks that would threaten its business model, future performance, solvency and liquidity and ensuring that appropriate mitigating actions are in place to manage them.

The Group's approach to risk management as more fully described on pages 40 to 43 ensures that, on an ongoing basis, the most significant risks to the Group's objectives are identified, assessed and managed.

The Costain Way, which forms the basis of the Group's control framework, contains all policies, procedures and controls and is regularly updated to reflect the output of risk and assurance activity to ensure that there is continuous improvement to the control environment.

Internal control

The Board is responsible for the Group's systems of risk management and internal control and is required to regularly review their effectiveness. The Audit Committee has undertaken this review in accordance with the requirements of the Guidance on Risk Management, Internal Control and Related Financial and Business Reporting, published by the FRC, throughout the year and up to the date of this annual report. Further details can be found on pages 76 and 77 of the Audit Committee Report.

The Group uses the Costain Way as the framework for the systems and controls in place to ensure that exposure to significant risks is managed appropriately. The Board recognises that such a system can only manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable, but not absolute, assurance against material misstatement or loss.

The Group also has an independent internal audit function which undertakes a programme of risk based audits across all operations throughout the year. All audit reports are shared with the relevant business owners who are accountable for implementing appropriate measures to address any risks or controls weaknesses. The results of all internal audit activity are also shared with the chief executive officer, chief financial officer, the external auditor and scrutinised by the Audit Committee on a regular basis, further details of which can be found on pages 76 and 77 of the Audit Committee Report.

The Committee has open and challenging dialogue with management and the internal and external auditors and has an appropriate level of scrutiny

In accordance with its terms of reference and in compliance with the 2018 Code, on behalf of the whole Board, the Committee is responsible for:

- monitoring the integrity of the Group's financial statements and any formal announcements relating to the Group's performance, and reviewing significant financial judgements contained in them
- providing advice (where requested by the Board) on whether the annual report, taken as a whole, is fair balanced and understandable, and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy
- reviewing the Company's internal financial controls and internal control and risk management systems, and the processes for management of the principal risks facing the Group
- monitoring and reviewing the effectiveness of the internal audit and risk function. Approving, in consultation with the chief executive officer, the appointment and termination of employment of the head of that function
- reviewing the effectiveness of the external audit process and making recommendations to the Board in relation to the appointment, reappointment and remuneration of the external auditor
- ensuring that an appropriate relationship between the Group and the external auditor is maintained. Reviewing non-audit services and fees and the external auditor's independence
- developing and implementing policy on the engagement of the external auditor to supply non-audit services. Considering the impact this may have on independence, taking into account the relevant regulations and ethical guidance in this regard. Reporting to the Board on any improvement or action required
- reviewing its terms of reference and its effectiveness from time to time and recommending to the Board any changes required.

AUDIT COMMITTEE

Governance of the Committee

The Audit Committee (the Committee) is comprised exclusively of independent non-executive directors, with myself acting as Committee chair. The members of the Committee and details of their attendance at Committee meetings are given on page 68 and their biographies are shown on pages 47 to 49.

The general counsel and company secretary is secretary to the Committee.

The Company considers that I, as Committee chair, possess the necessary recent and relevant financial experience to effectively chair the Committee and am competent in accounting and auditing. In addition, the Company considers that the members of the Committee as a whole possess relevant skills and sector experience to meaningfully discharge the responsibilities of the Committee.

During 2020, the Committee held seven meetings reflecting the increased oversight required as a result of the capital raising, refinancing, COVID-19 pandemic and accounting treatment of material contracts. The meetings of the Committee are normally also attended by the Group chair, the chief executive officer, the chief financial officer, the head of internal audit and risk, the financial controller and the external auditor. Other senior executives will attend as required to provide information on matters being discussed which fall into their area of responsibility. The Committee also regularly meets privately with the external auditor and the head of internal audit and risk.

"I am pleased to present the 2020 report of the Audit Committee which describes how the Committee has carried out its responsibilities during the year. This is my last report as chair of the Committee. I know I will be leaving the Committee in safe hands under Tony Quinlan's chairship. I would like to thank the members of the Committee, the executive management team and the external auditor for the open discussions that take place at our meetings and the importance they all attach to the Committee's work."

Jane Lodge
Committee Chair

Committee effectiveness review

Independent Audit Limited was appointed to undertake a review of the effectiveness of the Board and its Committees. The evaluation process is discussed in greater detail on page 69. On the basis of the review, the Audit Committee concluded that the Committee and its chair remained effective. There were no significant areas for concern in respect of the performance of the Committee or any of its members.

Activities

In 2020, the principal activities of the Committee and the manner in which it discharged its responsibilities were as follows:

Capital raising

In considering the Group's capital structure, the Committee evaluated and recommended to the Board an equity capital raising of £100m by way of a firm placing and placing and open offer.

Refinancing

The Committee reviewed Costain's banking facilities and recommended to the Board an extension be made to the maturity date of its existing facilities (£179.0m as at 31 December 2020) from June 2022 to September 2023.

Dividend policy

The Committee reviewed and recommended to the Board a dividend policy (see page 106).

Pension

The Committee reviewed the pension deficit recovery plan and in March 2020 agreed an updated plan with the scheme trustee.

Risk assessment

The Committee reviewed the principal and emerging risks. A 'deep dive' into the cyber security risk was conducted, which included an assessment of the impact of COVID-19 on this risk. The Committee also considered the risks arising from undertaking consultancy engagements.

Financial statements

The Committee reviewed and evaluated the Group's draft financial statements, preliminary and interim results and reports from the external auditor on the outcome of its reviews and audits in 2020.

Significant accounting matters

The Committee considered key accounting issues, matters and judgements in relation to the Group's financial statements and disclosures relating to:

(A) Material contract judgements

As detailed in note 2 on pages 128 to 138 of the financial statements, a significant proportion of the Group's activities are undertaken via long-term contracts. These contracts are accounted for in accordance with IFRS 15, Revenue Recognition, which requires them to be accounted by their separately identifiable performance obligations. The costs and revenues of some of these performance obligations may be affected by a number of uncertainties that depend on the outcome of future events and may need to be revised as events unfold and any uncertainties are resolved.

Management uses detailed contract valuations and cost forecasts when formulating its judgements of costs and revenues and its assessments of the expected outcome of each long-term contractual obligation. Given the Company's portfolio of contracts, the Committee spent time during the year reviewing the positions and judgements taken by management on a number of material contracts across the Group.

This was mainly achieved through discussions with, and reviewing reports presented by, management and the external auditor.

How do we ensure that the Group's financial statements, taken as a whole, are fair, balanced and reasonable?

The process is:

- Comprehensive guidance issued to all contributors.
- Verification process dealing with the factual content of the report.
- Review of the disclosure judgements made by the contributors from various functions to each section.
- Comprehensive reviews undertaken to ensure consistency and overall balance.
- Review undertaken by the Committee prior to recommendation to the Board.

The main contracts considered, as referenced as applicable in the Strategic Report on pages 14 to 45 were:

- A14
- A465 Heads of the Valley
- ASF South
- Crossrail C412 & C610 Systemwide
- HS2
- London Bridge
- M1 J13–16
- M1 J23a–25
- Peterborough & Huntingdon compressor stations
- Severn Trent AMP6
- Thames Tideway
- Thames Water AMP6 ROI
- West Coast Power Supply Upgrade.

This review included, among other things, consideration of the number of compensation events on the contract, changes in the design and construction requirements, the impact of any third-party factors and progress to date on negotiations with the client. The Committee considered in particular the extent to which events have impacted on the cost and programme to complete the contract and the associated level of judgement and appropriate accounting treatment. In reviewing the contract judgements consideration is also made to past performance on contracts and the success or otherwise of resolving any disputed matters. On the basis of its review of material contracts, the Committee concluded that it was content with the judgements that had been made by management and that appropriate disclosures had been made at the relevant times.

(B) Pension

The Group's defined benefit pension scheme requires significant judgements to be made in relation to the assumptions for inflation, future pension increases, investment returns and member longevity that underpin the valuation. Each year, in selecting the appropriate assumptions, the Company takes written advice from an independent qualified actuary. These assumptions and sensitivities are set out in note 21 on pages 168 to 172 of the financial statements.

(C) The carrying value of goodwill and intangible assets

As set out in note 12 on pages 149 and 150 of the financial statements, the goodwill and acquired intangible balances within the Group relate to companies acquired by the Group. In particular, the Committee reviewed the carrying value of the goodwill within the natural resources division. The Committee also critically reviewed the impairment considerations in respect of the goodwill and intangibles. The Committee agreed that the goodwill within the natural resources division should be impaired by £9.0m. The Committee agreed the amortisation charge in respect of other intangibles.

(D) Going concern and viability statement

The Company completed an equity raising of £100.0m and secured with its banks and sureties an extension to the maturity date of its existing facilities (£179.0m as at 31 December 2020) from June 2022 to September 2023.

The Committee considered the requirements of the 2018 Code as it applies to the Group's viability statement including the three-year period of assessment which aligns with the Group's planning horizon and the processes supporting the viability statement. After discussion and having considered the various scenarios that were presented as part of the viability assessment, alongside the liquidity and debt positions of the business, the Committee determined that the three-year measurement period continued to be appropriate and that the viability statement (as set out on pages 44 and 45) should be recommended to the Board for approval.

(E) Future IFRS and UK GAAP developments

During the year, there were no changes to the Group's accounting policies and there were no new accounting standards.

Audit, risk and internal control

The Board assumes ultimate responsibility for the effective management of risk across the Group. However, the Committee helps the Board in its monitoring of the Company's internal financial control, and internal controls and risk management systems and monitoring and reviewing the work of the internal audit and risk function.

Internal audit

The internal audit and risk function has an integral role in the Company's governance structure, providing independent assurance and advice to help the Group achieve its strategic priorities. In December 2019, the Committee agreed the 2020 audit plan to be undertaken by the internal audit team and assessed the adequacy of the budget and resources. The audit plan is based on risk, strategic priorities and consideration of the strength of the control environment. Progress against the plan is monitored. The Committee reviews the results of the internal audit reports during each meeting which are graded. Management is responsible for ensuring that issues raised by internal audit are addressed within the agreed timetable and their timely completion is reviewed by the Committee. Where internal or external circumstances give rise to an increased level of risk, the audit plan is modified accordingly during the year. In 2020, the audit plan was modified to take account of the new risk factors arising from the COVID-19 pandemic.

The head of internal audit and risk continues to report directly into the Committee chair with a second reporting line to the CEO (previously to the general counsel and company secretary) for administrative purposes. During the year the Committee received the results of the head of internal audit and risk's annual performance review. It also reviewed statistics on key staff numbers, qualifications and experience which the Committee considered to be satisfactory.

The effectiveness of internal audit is assessed by the Committee by: reviewing the results of an annual questionnaire completed by individuals who have exposure to and contact with the internal audit function; evaluating internal audit reports; and meetings with the chair of the Committee without management present. The implementation of elements of the 2020 internal audit plan was delayed by people changes within the internal audit team. In the year, resourcing within the internal audit team was reinstated to its previous level following some departures. The Committee is satisfied that the quality, experience and expertise of the function is appropriate for the business and to deliver the 2021 internal audit plan.

Internal control and risk

Details of the Group's internal controls and risk management framework are more fully set out on pages 40 to 43 in the Strategic Report and page 73 in the Governance Report. The Group's principal risks are set out on pages 42 and 43.

The Committee has evaluated the effectiveness of the systems operated within the Group pursuant to the FRC's guidance on internal control. The evaluation covered all material controls. These included financial, operational and compliance controls. They encompassed a review of: the management confirmation reports submitted by all senior management; controls reports; reports on fraud perpetrated against the Group; the Group's approach to anti-bribery and corruption and whistleblowing; and reports from both the internal and external auditors.

The review did not identify any significant weaknesses in the system of internal control and risk management.

External auditor

The Company's external auditor is PricewaterhouseCoopers LLP (PwC). The audit partner is Jonathan Hook.

Effectiveness of the external audit process

Following the end of the 2019 financial year, the Committee considered the effectiveness of PwC as external auditor. As part of this process, external audit effectiveness questionnaires were completed by members of the Committee, the executive directors, other members of the Executive Board and certain members of the finance team. Based on the responses to the questionnaires, the general counsel and company secretary produced a report for consideration by the Committee. The Committee confirms that it remained satisfied with the efficiency and effectiveness of the external audit in respect of the year ended 31 December 2019.

During the year, the Committee kept under review the ongoing effectiveness of PwC as the Company's external auditor, for example, through the quality of the external auditor's reports and the audit partner's interaction with the Committee.

At its meeting in December 2020, the Committee considered and approved the external audit plan for the audit of the Group for the year ended 31 December 2020. The Committee considered significant risk areas for the audit, the proposed scope, and the materiality threshold.

Auditor independence and objectivity

Auditor independence and objectivity are an essential part of the audit framework and the assurance it provides. The auditor's independence is therefore monitored throughout the year. For example, the Committee has reviewed PwC's own policies and procedures for safeguarding its objectivity and independence and the arrangements that PwC have in place to identify, report and manage conflicts of interest. PwC are also required to rotate the lead audit partner every five years to ensure a fresh outlook without sacrificing institutional knowledge. Jonathan Hook has served four years out of five with PwC having first been appointed as the Company's auditor in 2017 following a competitive tender process. Mr Hook will be retiring in 2021 and it was agreed that Andrew Paynter would succeed him and shadow Mr Hook to the conclusion of the 2020 year-end audit.

The Committee is not aware of any relationships between the external auditor and the Company that may reasonably be thought to bear on their integrity, independence and objectivity. The Committee reviews all services being provided by the external auditor annually to assess its independence and objectivity. The Committee takes into consideration relevant performance and regulatory requirements, so as to ensure that these are not impaired by the provision of permissible non-audit services.

The Committee confirms that it believes that the independence and objectivity of PwC and the effectiveness of the audit process remains strong and has therefore recommended the reappointment of PwC for 2021.

Non-audit fees

The Company has a policy on the provision of non-audit services by the external auditor, with the objective of ensuring that such services do not impair the independence or objectivity of the external auditor.

The policy also sets out a number of key principles that underpin the provision of non-audit services by the external auditor: the external auditor should not audit its own firm's work; make management decisions for the Group; have a mutuality of financial interest with the Group; or be put in the role of advocate for the Group.

Approval of the Committee is required for any services provided by the external auditor where the fee is likely to be in excess of £30,000.

In 2020, the value of non-audit work performed by PwC was £619,250 (2019: less than £0.1m) and exceeded the 70% non-audit/audit fee threshold. This was due to the extended nature of the work undertaken in relation to the capital raising (£500,000). Pursuant to Regulation 13 of the Statutory Auditors and Third Country Auditors Regulation 2016 and Article 4(2) of the EU Audit Regulations the Financial Reporting Council granted a one year waiver to exceed the cap in respect of the year ended 31 December 2020. The Committee considered the nature of the work and the circumstances of the increased scope and impact on timetable of the COVID-19 pandemic and satisfied itself that the external audit remained independent and objective. The remaining balance was £118,500 for the half year review and £750 for a website subscription.

Whistleblowing and fraud

During 2020, the Committee on behalf of the Board considered the confidential reporting and whistleblowing procedures the Company has in place and is satisfied with these procedures. The Committee also reviews any instances of fraud perpetrated against the Company and the action taken by management to prevent recurrences.

Looking ahead

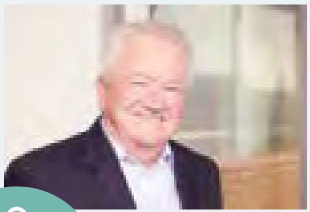
On the basis of the external review of the Audit Committee by IAL (see page 69), the Committee determined the main areas of focus for 2021, in addition to the annual routine matters, are:

- a detailed review of the risk management framework, including risk appetite
- continuing to oversee risk 'deep dives' and to receive presentations on these from the Executive Board risk sponsor (see page 40)
- overseeing a campaign to re-publicise the Company's whistleblowing procedures to ensure they remain effective in light of the virtual ways of working driven by the COVID-19 pandemic.

Jane Lodge
Committee Chair
16 March 2021

Nomination Committee Report

Alignment with the Leading Edge strategy



"Board composition has continued to be a key focus for the Nomination Committee, ensuring we have the right balance of skills, experience and diversity on the Board."

Paul Golby
Committee Chair

NOMINATION COMMITTEE

Governance of the Committee

The Nomination Committee (the Committee) is comprised of independent non-executive directors and, since his appointment, Bishoy Azmy, with myself acting as chair. The members of the Committee, together with their biographies, are given on pages 47 to 49 and details of their attendance at Committee meetings is shown on page 68.

The general counsel and company secretary is secretary to the Committee.

Only members of the Committee have the right to attend Committee meetings. Other individuals, such as the chief executive officer, Group HR director, members of senior management and external advisers, may be invited to attend meetings as and when it is considered appropriate.

The outcome of all Committee meetings is reported to the Board for its consideration. The senior independent director of the Company would chair any meetings of the Committee that may deal with the appointment of my successor as chair of the Company. The Committee may take independent professional advice on any matters covered by its terms of reference at the Company's expense.

Role of the Committee

In accordance with its terms of reference and in compliance with the 2018 Code, the Committee is responsible for:

- reviewing the overall size, structure and composition of the Board
- identifying and nominating for the Board's approval, candidates to fill Board vacancies as and when they arise
- receiving notifications from directors of situations, such as proposed external appointments, in which a potential conflict of interest might arise and/or their time commitment to the Board could be compromised
- recommending to the Board the reappointment of those directors who are offering themselves for re-election at the Annual General Meeting following due consideration of the Board's policy on independence and the results of periodic Board performance reviews
- formulating plans for succession for both the executive directors and non-executive directors
- reviewing succession planning arrangements and development plans for other senior employees
- directing periodic Board effectiveness reviews, both internal and external, which form part of the regular evaluation and development work conducted by the Board to ensure it continues to improve its overall effectiveness.

Activities

In 2020, the principal activities of the Committee and the manner in which it discharged its responsibilities were as follows:

Succession planning

Succession planning has continued to be a key area of focus during the year in respect of the Board and for those high performing individuals below Board level.

In considering the Board's structure and composition, the Committee considered how well the skills, knowledge and experience of the Board continued to support the business to deliver effectively our Leading Edge strategy. The Committee also discussed emerging requirements for skills and experience. The process for the appointment of Helen Willis as CFO is detailed on page 81.

During the year, the Committee received updates from the Group HR director, Catherine Warbrick, on the talent management and succession planning activities within the wider Group, including those individuals within the Group who have been identified as having longer-term potential for senior roles. In the year under review, Executive Board appointments were made. Sue Kershaw joined the Company on 23 March 2020 in the position of MD transportation and Sharon Harris was appointed general counsel and company secretary on 2 September 2020.

Board diversity

The Company recognises the importance of diversity at the Board and all levels of the Group. Further details of the work undertaken to support the development of a diverse pipeline, including the Board's policy on diversity, our measurable objectives that have been set for implementing the policy and progress made on achieving these objectives, can be found on pages 60 and 61.

By appreciating and celebrating our differences we are creating a Company that is a more dynamic and inspiring place to be for our employees. We are working hard to ensure that our workforce reflects the diverse communities we serve, and we create an inclusive culture where each employee can truly be themselves at work. Embracing diversity underpins our commitment to providing equal opportunities to our current and potential employees and applying fair and equitable employment practices.

Our directors come from broad industry and professional backgrounds, with varied experience and expertise aligned to the needs of our business.

A copy of the Board's Diversity Policy relating to the whole of the workforce can be found on the Company's website at www.costain.com.

The composition of our Board and Executive Board can be found on pages 47 to 49, and 50 and 51 of this annual report respectively.

Committee effectiveness review

Independent Audit Limited was appointed to undertake a review of the effectiveness of the Board and its Committees. The evaluation process is discussed in greater detail on page 69. On the basis of the review, the Nomination Committee concluded that the Committee and its chair remained effective and there were no significant areas for concern in respect of the performance of the Committee or any of its members.

In 2021 the Nomination Committee will continue its focus on ensuring diversity, particularly in the Executive Board successor pool. It will also oversee the development and training plans for this group. Additionally, it will look to strengthen Board sector specific knowledge to support the Company's Leading Edge strategy.

Reappointment of directors

At the 2020 AGM, all our directors (with the exception of David McManus who stepped down from the Board from the conclusion of the AGM on 19 June 2020) stood for re-election, as required by the 2018 Code.

The Committee spent time during the course of the year considering all Board members' other appointments and the impact on their time availability in view of shareholders' general concerns regarding overboarding.

During the year Jane Lodge was appointed as a director of Glanbia PLC and Alison Wood as a director of Oxford Instruments plc. Both appointments were approved by the Board, as required under the 2018 Code, and in doing so the Board considered the directors' other commitments and shareholder concerns regarding overboarding.

There were no significant changes to the chair's other commitments in the year.

Renewal of letters of appointment

During the year, the Nomination Committee agreed the renewal of the letters of appointment for a third three-year term for Alison Wood from February 2020 and for a second three-year term for Jacqueline de Rojas from November 2020. The Committee, on behalf of the Board, is satisfied that all Board members have, and commit, the time required to discharge their roles at Costain effectively. This has been evidenced in the past year during which each Board member has contributed fully and effectively.

Appointment of directors

There is a formal, rigorous and transparent procedure for the appointment of new directors to the Board which involves the use of an external search firm.

Careful consideration is given to ensure the proposed candidates have the right skills, knowledge and experience and can devote sufficient time to the role.

Dr Paul Golby CBE
Committee Chair
16 March 2021

CFO succession

The Committee considers executive director succession as part of its routine succession planning activities, with an item at the December 2020 Committee meeting on senior level succession, talent and development.

Following the announcement on 5 October 2020 of Anthony Bickerstaff's departure as chief financial officer, the Committee started a search to identify an individual who would be able to undertake the role of CFO of Costain.

The Committee, supported by the Group HR director and the general counsel and company secretary, agreed:

- a specification for the role and responsibilities for a new CFO
- to appoint Russell Reynolds Associates, which has no other connection with the Company or individual directors, as the external search partner and
- an interview and selection process.

The Committee requested that the Remuneration Committee determine an indicative reward package in line with the remuneration policy for executive directors approved at the 2020 AGM. With the assistance of Russell Reynolds, a long list of candidates was drawn up for consideration by the Committee. Both internal and external candidates were invited to participate in the process.

Russell Reynolds undertook both a benchmarking exercise and facilitated personal assessments, to determine both external and internal candidates' skills, potential and development requirements.

The Committee then considered the formal appraisals of the candidates on the long-list and agreed a shortlist of candidates to progress to the next stage of the process. The CEO and Group HR director undertook first interviews with a diverse shortlist of candidates, and recommended four candidates for interview and further consideration by the chair and Jane Lodge, senior independent director and chair of the Audit Commitee. Finally, the preferred candidate then met with other non-executive directors.

Following the conclusion of these meetings, the Committee met to discuss their findings, noting in particular the preferred candidate's proven track record of executing for success combined with her commercial acumen and the ability to think strategically while balancing both short and long term goals.

The Board met to consider the recommendations of both the Committee and the Remuneration Committee. The Directors unanimously approved the proposals. On 20 November 2020 we announced the appointment of Helen Willis as CFO with effect from 30 November 2020 and that she would join on 23 November 2020 to start a handover prior to taking up her position.

Having successfully secured a suitable candidate for the role and discharged its announcement obligations, the Committee tasked the CEO and general counsel and company secretary with preparing a detailed induction plan for Helen (see page 70).

Non-executive director succession

During the Autumn of 2020, a process to recruit a new non-executive director and successor to the chair of the Audit Committee was instigated and progressed leading to the announcement on 27 January 2021 of Tony Quinlan as a director of the Company with effect from 1 February 2021. Tony will take over as chair of the Audit Committee when Jane Lodge steps down from the Board with effect from the conclusion of the 2021 AGM.

As the process straddled the year-end, full details of the recruitment and appointment process undertaken for Tony Quinlan will be included in the 2021 annual report.

How did we perform in the year?

Group EBITA[3]

£18.0m

2019: £18.2m

2018: £52.8m

Group health and safety

0.03AFR[1]

2019: 0.05

2018: 0.03

Adjusted[2] basic earnings per share

5.8p

2019: 13.5p

2018: 38.2p

Cash flow (Average month end cash balance)

£73.8m

2019: £41.2m

2018: £77.1m

How was our performance reflected in our pay?

AIP – Award achieved by executive directors[5,6]

	Group EBITA[3] (max opportunity: 50%)	Group Health and Safety (max opportunity: 10%)	Order Book (max opportunity: 10%)	Cash Flow[4] (max opportunity: 10%)	Personal Performance (max opportunity: 20%)	Total Achieved	Actual pay-out#
Alex Vaughan	0%	10%	10%	0%	6.5%	26.5%	0%

Due to the financial performance of the Group in 2020, the Remuneration Committee, in consultation and agreement with Alex Vaughan, exercised its discretion and decided to not award any bonus.

LTIP – Award achieved by executive directors

	Aggregate EPS[7] for financial years ended 31 December 2018, 2019 and 2020 (75% of the award)	Cash conversion (25% of the award)	Total Achieved
Alex Vaughan	58.3 pence (threshold vesting level: 99.44 pence or more)*	58% (threshold vesting level 80%)	Nil%
Anthony Bickerstaff[6]	58.3 pence (threshold vesting level: 99.44 pence or more)*	58% (threshold vesting level 80%)	Nil%

* As adjusted following the capital raising completed May 2020.

Ensuring shareholder alignment

33%

of AIP bonus is automatically deferred into Costain shares with a two year holding period.

100%

Subject to performance targets being met, 100% of LTIP shares vest after three years but will only be released after five years.

200%

Share Ownership Guidelines are set at 200% of salary for the executive directors.

1 Accident frequency rate.

2 For 2020 calculated on an adjusted basis before net other items of £10.3m and significant contract provisions of £99.7m. For 2019 and 2018, calculated on an underlying basis before other items. See definition on page 84.

3 Earnings before interest, tax and amortisation; calculated on an adjusted basis for 2020. For 2019 and 2018, calculated on an underlying basis before other items. See definition on page 84.

4 Measured pre-acquisition and investments.

5 Helen Willis was appointed to the Board on 30 November 2020 and was not eligible to receive an AIP award for 2020.

6 Anthony Bickerstaff stepped down from the Board on 30 November 2020. The Remuneration Committee determined that he was not eligible to receive an AIP award for 2020 but that he retained his 2018 LTIP award as he was employed for the majority of the performance period.

7 Adjusted to exclude pension interest and other items considered to be one-off and unusual in nature or related to the accounting treatment of acquisitions.

Annual Statement by Chair of the Remuneration Committee

Actions in response to COVID-19

Board Remuneration

- 30% salary reduction for executive directors, the Executive Board and the leadership team for three months.
- 30% fee reduction for chair and NEDs for three months.
- No salary or fee increase for directors.

Wider Workforce

- Use of CJRS, with the majority of the 360 employees furloughed returned to work by 1 September 2020.
- 20% salary reduction for employees on a structured bonus scheme for three months.
- 10% salary reduction for those earning over £45,000 for three months.
- Temporary pause on promotions for three months.

I am pleased to present our Directors' Remuneration Report for the year ended 31 December 2020.

2020 variable pay outcomes

2020 AIP award outcome: Notwithstanding the good performance against non-financial measures (see page 93), the Committee, in consultation and agreement with Alex Vaughan, exercised discretion to reduce from 26.5% to nil the pay-out which he would otherwise have earned, having regard to overall financial performance and broader stakeholder experience. Neither Anthony Bickerstaff nor Helen Willis were eligible to earn a bonus in respect of 2020.

2018 LTIP: The threshold EPS and cash conversion targets under the 2018 LTIP award were not achieved and the awards lapsed in full (see page 94).

2020 LTIP awards

Alex Vaughan's 2020 LTIP award was granted in October 2020, with Helen Willis' award granted following her appointment in November 2020. Performance targets were set having regard to the circumstances at the time, and more information is given on page 96. Taking into account market conditions, the award quantum was reduced from 100% of salary to 55% of salary, with a pro rata reduction then applied to Helen Willis' award to reflect her period of service during the performance period.

Implementation in 2021

Alex Vaughan's salary will be increased by 2% in 2021. Helen Willis' salary was set on her appointment in November 2020 and will not be increased for 2021.

Maximum 2021 AIP opportunity equal to 150% of salary subject to a mixture of financial and non-financial performance measures (see page 98). One third of any AIP award earned is deferred into shares for two years.

Maximum 2021 LTIP award opportunity of up to 100% of salary. Awards will be subject to EPS performance as regards two thirds of the award and cash conversion performance as regards one third of the award over the three financial years ending 31 December 2023 (see pages 98 and 99 for further details). Any LTIP awards which vest will be subject to a two year holding period.

This report is split into three sections:

I. this annual statement which includes a summary of the remuneration decisions (see pages 82 to 85)

II. extracts from the remuneration policy approved at the 2020 AGM (see pages 86 to 89)

III. the Annual Report on Remuneration (see pages 90 to 105), which will be subject to an advisory vote at our 2021 AGM

"2020 Executive reward outcomes have been reviewed against the backdrop of the COVID-19 impact on the business and wider workforce."

Alison Wood
Committee Chair
16 March 2021

Annual Statement by Chair of the Remuneration Committee continued

Link to strategy and culture

Our new remuneration policy was approved at the 2020 AGM with over 90% of the votes cast in favour of it. We were pleased to see similarly strong support for the 2019 Directors' Remuneration Report, with 99% of votes cast in favour of it. Our policy is designed to be simple and transparent, aligned with delivering our Leading Edge strategy, and ultimately supporting the creation of long term sustainable shareholder value.

Our core financial and strategic objectives, critical to the success of our long-term transformational strategy, are largely embedded within the executive remuneration framework through the AIP and LTIP.

We hold ourselves accountable to the highest safety, health and environment standards and are committed to operating sustainably, ethically and inclusively. A proportion of the AIP is therefore based on health and safety performance. The executive directors' personal performance objectives under the AIP are also linked to talent development and progressing the Group's inclusion strategy.

No changes are proposed to the policy, which continues to be fit for purpose and appropriately supports the Company's strategy. We have set out below how we propose to implement the policy in 2021.

We reported last year that we would formally include in the new policy a maximum pension opportunity for newly appointed executive directors in line with the wider workforce (currently 10% of salary). Helen Willis was appointed in the year with a company pension contribution of 10% of salary, the same as for Alex Vaughan, meaning that the pension opportunity for both executive directors is now aligned with the wider workforce.

Performance and variable pay outcomes for the year ended 31 December 2020

The 2020 AIP award was subject to a mixture of financial and non-financial performance measures aligned with key strategic priorities. 50% was linked to EBITA and the remainder to continued improvement of our health and safety performance, order book profitability, cash management and personal objectives linked to critical strategic and corporate activities. During the year, the Group continued to make good progress with implementing the Leading Edge strategy to align with our clients' changing needs (further details are set out on pages 22 and 23 of the Strategic Report). Based on assessment against the non-financial performance measures, Alex Vaughan would have earned an AIP award equal to 26.5% of salary. However, recognising it was, overall, a challenging year for the Company, the Committee reviewed any 2020 bonus payment against the backdrop of shareholder and wider workforce experience in 2020. In light of this, the Committee, in consultation with and agreement of Alex Vaughan, exercised its discretion to reduce the AIP award pay-out to nil. Further details are set out on page 93.

Anthony Bickerstaff's bonus opportunity lapsed when he left the business, and Helen Willis was not eligible to earn a bonus for 2020 reflecting that she served for one month in the year.

The LTIP award granted on 4 April 2018 was subject to EPS performance as regards 75% of the award and cash conversion performance as regards 25% of the award. The threshold performance targets were not achieved and the award therefore lapsed in full. Further details are set out on pages 94 and 95.

2020 LTIP awards

In the 2019 Directors' Remuneration Report, we confirmed our intention to grant 2020 LTIP awards at the level of up to 100% of salary, and set out the proposed EPS targets for the two thirds of the awards subject to an EPS performance condition. Alex Vaughan's award was granted in October 2020, with Helen Willis being granted an award following her appointment in November 2020.

Taking into account market conditions, the quantum for each award was reduced from 100% of salary to 55% of salary, with a pro rata reduction then applied to Helen Willis' award to reflect her period of service during the performance period.

As we confirmed when the awards were granted, the EPS targets were revised to take account of the change in circumstances, including the capital raising, with the Committee of the view that the revised targets are achievable but still require the delivery of EPS performance which is appropriately stretching. The targets were confirmed when the awards were granted, and are set out on page 96.

Executive director changes

Helen Willis joined the business on 23 November 2020 and was appointed CFO with effect from 30 November 2020, the date on which Anthony Bickerstaff left the Board. A summary of Helen Willis' remuneration package is set out opposite. The remuneration arrangements in connection with Anthony Bickerstaff leaving the business were determined in accordance with the policy, and are described on page 97.

Definitions used in this report

AIP: Annual Incentive Plan.

EBITA: Underlying Earnings Before Interest, Tax and Amortisation as adjusted by the Remuneration Committee to exclude other items considered to be one-off and unusual in nature or related to the accounting treatment of acquisitions and to ensure that the performance measures are assessed on a consistent basis year-to-year.

EPS: Underlying Earnings Per Share as adjusted by the Remuneration Committee to exclude pension interest and other items considered to be one-off and unusual in nature or related to the accounting treatment of acquisitions and to ensure that the performance measures are assessed on a consistent basis year-to-year.

LTIP: Long-Term Incentive Plan.

SDP: Share Deferral Plan.

Helen Willis' remuneration arrangements

Salary	£360,000.
Pension	10% of salary, in line with the wider workforce.
Bonus	Up to 150% of salary. No bonus opportunity was awarded for 2020.
LTIP	Up to 100% of salary. As described previously, awards for 2020 were reduced to 55% of salary, and Helen Willis' award was then reduced to reflect her period of service during the performance period. Helen Willis' 2020 LTIP award is subject to a specific retention requirement (see note i, page 103).
Notice period	12 months.

Reward for the year ending 31 December 2021

Alex Vaughan's salary will be increased by 2% in 2021, which is less than the wider workforce. Helen Willis' salary was set on her appointment in November 2020 and will not be increased for 2021.

The maximum AIP opportunity for executive directors will be 150% of salary. The AIP will be weighted 80% as regards financial measures, 10% as regards health and safety measures and 10% as regards other non-financial Group and personal measures. The Committee considers that this weighting appropriately aligns the AIP performance measures with key financial, strategic and workforce based priorities of the business. Details of the AIP performance measures are provided on page 98 and the targets with performance against them will be provided in the 2021 Directors' Remuneration Report. One third of the AIP earned will be deferred under the SDP.

The maximum LTIP opportunity for executive directors will be up to 100% of salary. Vesting will be subject to EPS performance as regards two thirds of the award and cash conversion performance as regards one third of the award. Details of the LTIP performance measures and targets are provided on pages 98 and 99.

LTIP awards which vest will be subject to a two year holding period.

There will be a 2% increase in non-executive directors' fees including fees for chairing Committees and the chair's fee in 2021.

Conclusion

We remain committed to a responsible approach to executive pay and believe the policy operated as intended during the year. The decisions made as a Committee as regards remuneration outcomes in respect of 2020 demonstrate our commitment to ensuring that executive directors' reward is aligned with performance, reflective of returns delivered to shareholders and acknowledges the impact on the wider workforce of this challenging year.

We look forward to receiving your support at our 2021 AGM. I will respond to any questions that shareholders may have on this report or our intended approach to reward for 2021.

Alison Wood
Committee Chair
16 March 2021

Remuneration disclosure

This report, approved by the Board, has been prepared in accordance with the provisions of the Companies Act 2006 and Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended). It also meets the requirements of the UK Listing Authority's Listing Rules and the Disclosure and Transparency Rules.

In this report we describe how the principles of good governance relating to directors' remuneration, as set out in the 2018 UK Corporate Governance Code, are applied in practice. The Committee, when determining the new policy approved in 2020, addressed the factors in Provision 40 of the 2018 Code as follows:

- **Clarity** – remuneration arrangements are simple and transparent and take account of pay policies for the wider workforce.
- **Simplicity** – we follow a conventional UK market approach to remuneration with established incentive plans that operate on a clear and consistent basis.
- **Risk** – performance targets are set to reward sustainable business performance, while not encouraging inappropriate business risks to be taken. Malus and clawback provisions apply to AIP and LTIP awards, and the Committee has the means to apply discretion and judgement to vesting outcomes.
- **Predictability** – details of the potential values that may be earned by executive directors through their remuneration arrangements are set out in the remuneration policy.
- **Proportionality** – the AIP and LTIP performance measures are clearly aligned to the Group's strategic objectives. The Committee takes into account underlying business performance and the experience of shareholders and the wider workforce when determining vesting outcomes, ensuring that poor performance is not rewarded.
- **Alignment to culture** – the Committee's intent is that the policy drives the right behaviours, and reflects the Group's purpose, values and strategy. The Committee regularly reviews the remuneration framework to ensure that this continues to be the case.

This report is unaudited unless otherwise stated.

The report is in two sections:

- Extract from the remuneration policy. This section contains the policy table summarising the remuneration policy approved at the 2020 AGM and is for information only. The full remuneration policy is available in the 2019 annual report on the Company's website at www.costain.com
- The annual report on remuneration. This section sets out details of how our remuneration policy was implemented for the year ended 31 December 2020 and how we intend for the policy to apply for the year ending 31 December 2021 and is the subject of an advisory shareholder vote at the 2021 AGM.

Remuneration Policy

Our remuneration policy was approved by shareholders at our 2020 AGM, supported by over 90% of the votes cast. We have set out below the policy table and the full remuneration policy is available in the 2019 annual report on the Company's website at www.costain.com.

Element	Purpose and link to strategy	Operation	Performance metrics	Maximum opportunity
Salary	• To attract and retain high-calibre individuals. • Reflects skills, experience and performance in role. • Provides an appropriate level of basic fixed income while avoiding excessive risk arising from over reliance on variable income.	• Generally reviewed annually (with any change usually effective from 1 April) but exceptionally at other times of the year. • Set with reference to individual performance, experience and responsibilities. • Reflects the market rate for the individual and their role, determined with reference to remuneration levels in companies of similar size and complexity, taking into account pay levels within the Company in general. • Increases will usually be in line with average salary increases for the wider workforce (in percentage terms). • Higher increases may be appropriate in certain circumstances, which include but are not limited to, where an individual is promoted or changes role or where an individual is appointed on a below market salary with the expectation that their salary will increase with experience and performance.	• N/A	• To avoid setting expectations of future salary increases there is no maximum salary value set under the policy.
Annual Incentive Plan	• To incentivise the achievement of key financial and strategic targets for the forthcoming year without encouraging excessive risk taking. • Promotes greater alignment with shareholders. • To facilitate share ownership.	• Two thirds paid in cash. • Not pensionable. • Deferral into shares of one third of earned AIP; this vests on the second anniversary of grant (subject, ordinarily, to continued employment and not being under notice of termination, either given or received, on the date of vesting). Deferred share awards may be granted as conditional awards or nil or nominal cost options. • The Committee may decide not to operate deferral where the amount of the bonus otherwise to be deferred would, in the opinion of the Committee, be so small as to make deferral unduly administratively burdensome. Executives may, with the approval of the Committee, elect for a greater proportion of the AIP award to be deferred into shares. • Deferred share awards may include the right to receive a benefit determined by reference to the value of dividends that would have been paid by reference to dividend record dates in the period from grant to the date on which shares can first be acquired. The benefit may assume the reinvestment of dividends. • Shares provided under the AIP are typically purchased by a trust on behalf of the Group so as to not lead to any dilution of shareholder interest. • Awards may be subject to malus and clawback as described below.	• The Committee considers and approves the performance measures and targets at the start of each year and ensures they are aligned with business strategy and are sufficiently stretching. • Financial metrics will comprise at least 50% of AIP opportunity. The balance of the AIP opportunity will be based on financial metrics and/or non-financial metrics such as Health and Safety targets and personal objectives. • In setting financial parameters, the Committee takes into account the Company's internal budgets and, where applicable, brokers' forecasts. The targets applying to financial measures are based on a sliding scale between 0% and 100%. Up to 60% of the maximum potential will be earned for on-target performance. • The Committee may amend the pay-out if it considers that the level of vesting that would otherwise apply is not appropriate, including where that level would materially deviate from the intention of the policy, is unreflective of underlying financial or non-financial performance of the Group or executive director over the relevant period or is not appropriate in the context of unexpected or unforeseen circumstances.	• Maximum: 150% of salary. • The combined AIP and LTIP maximum opportunities for any year may not exceed 250% of salary.

Element	Purpose and link to strategy	Operation	Performance metrics	Maximum opportunity
Long-Term Incentive Plan	• Aligned to main strategic objectives of delivering sustainable performance which in turn should deliver enhanced returns.	• Annual grant of performance shares, which vest subject to performance measured over three years. Awards may be granted as conditional awards or nil or nominal cost options. • Awards are subject to a further holding period of two years following the end of the performance period. • LTIP awards may include the right to receive a benefit determined by reference to the value of dividends that would have been paid on vested shares by reference to dividend record dates in the period from grant to the date on which the vested shares can first be acquired. The benefit may assume the reinvestment of dividends. • Awards may be subject to malus and clawback as described below.	• The performance condition will be based on key metrics aligned to the business strategy, including but not limited to EPS, return measures and cash-based measures. • At least 50% of the opportunity will be subject to an EPS performance measure. • Up to 25% of the maximum is earned for threshold performance, 100% for maximum with straight line vesting usually applying between these points. • The Committee has discretion to vary the formulaic vesting outturn if it considers that the level of vesting that would otherwise apply is not appropriate, including where that level would materially deviate from the intention of the policy, is unreflective of underlying financial or non-financial performance of the Group or executive director over the vesting period or is not appropriate in the context of circumstances that were unexpected or unforeseen at the grant date.	• LTIP awards with a face value of not more than 150% of salary. • The combined AIP and LTIP maximum opportunities for any year may not exceed 250% of salary.
SAYE Scheme	• Offered to all UK employees, to facilitate share ownership and provide further alignment with shareholders.	• Periodic grants which normally vest after three or five years subject to continued service. • Operated under HMRC requirements as a tax qualifying plan.	• N/A	• Participation on the same basis as all other employees.
Pension	• To aid retention and remain competitive in the market place.	• Annual pension allowance. • Paid as a cash contribution to the Defined Contribution pension scheme, personal pension arrangements and/or a cash supplement.	• N/A	• A percentage of base salary not exceeding the pension contribution available to the majority of the wider workforce (which is currently 10%).
Other Benefits	• To aid retention and be competitive in the market place. • Healthcare benefits to minimise business disruption.	• Company car (or car allowance) and fuel allowance. • Medical insurance. • Life assurance. • Other benefits as appropriate, for example, relocation expenses and travel and subsistence.	• N/A	• N/A

Share ownership guidelines

The Company has adopted share ownership guidelines to provide further alignment between the interests of the Board and the Company's shareholders. During employment, executive directors are expected to build and maintain a shareholding worth not less than 200% of base salary. Shares subject to LTIP awards for which the performance period has ended (i.e. which are in a holding period, or which have been released but which are not exercised) and shares subject to SDP awards count towards the shareholding guideline, on a net of assumed tax basis. Executive directors are required to retain half of the shares acquired pursuant to the LTIP and SDP (after sales to cover tax) until the shareholding guidelines are met.

The Committee's policy on post-employment shareholding requirements is to apply the 'leaver' provisions under the Company's share plans (described on pages 91 and 92 of the 2019 annual report) as regards both unvested awards which are subject to performance conditions (i.e. LTIP awards which are in their performance period) and vested awards (i.e. LTIP awards which are in a holding period and SDP awards which are in a deferral period).

Remuneration Policy continued

Notes

Performance measures

The choice of the performance metrics applicable to the AIP reflects the Committee's aim that our annual incentives should balance the delivery of stretching financial performance with non-financial indicators, particularly health and safety targets, and specific individual objectives. The LTIP financial metrics capture long-term earnings performance and, if appropriate, may be extended to include return based and cash measures which we believe are closely aligned with the financial performance expected by our shareholders. LTIP measures may also include strategic measures to incentivise the behaviours needed to deliver the Company's overall strategy.

AIP and LTIP performance measures may be adjusted if an event occurs which causes the Committee to consider that it would be appropriate to amend the performance measures (e.g. a material acquisition or divestment) so that they achieve their original purpose.

Recovery provisions

The AIP (including the deferred awards delivered under the SDP) and LTIP awards are subject to 'malus' and 'clawback' provisions as follows.

For up to two years following the payment of the cash element of an AIP award, the Committee may require repayment of all or part of the bonus in the event of a material misstatement or error in assessing performance measures which has led to an overpayment of the bonus or in the event of dismissal due to gross misconduct, or in the event of criminal behaviour, serious reputational damage or serious corporate failure. Some or all of a deferred share award under the SDP may be clawed back (via a cancellation of the award) prior to vesting in equivalent circumstances.

For up to two years following the vesting of an LTIP award (or part of an LTIP award) the Committee may require the repayment of all or part of the award (which may be effected by the cancellation of unvested LTIP awards or vested but unreleased LTIP awards) in the event of a material misstatement or error in assessing performance measures which has led to an award vesting to a greater degree than would otherwise have been the case or in the event of dismissal due to gross misconduct, serious corporate failure or serious reputational damage.

Incentive plan operation

The Committee will operate the AIP, SDP, LTIP and SAYE Scheme according to their respective rules.

Share awards under the SDP, LTIP and SAYE Scheme (and any applicable performance conditions) may be adjusted in the event of a variation of the Company's share capital or a demerger, special dividend or other event which affects the market price of a share. Share awards under the SDP and LTIP may be satisfied, in whole or in part, in cash, although the Committee has no intention to settle any executive director's award in cash and would do so only in exceptional circumstances, such as where there was a regulatory restriction on the delivery of shares, or to settle tax liabilities arising in connection with the acquisition of shares. Awards may vest early, in accordance with the plan rules, in the event of a change of control or other relevant event (such as a winding-up or demerger). Where an LTIP award vests early, the extent of vesting will be determined taking into account the extent to which the performance condition has been satisfied (as assessed by the Committee) and, unless the Committee determines otherwise, the proportion of the vesting period that has elapsed.

Remuneration policy for chair and non-executive directors

Element	Purpose and link to strategy	Operation	Maximum opportunity
Fees	Attract and retain high performing individuals.	Remuneration for non-executive directors, other than the chair, is determined by the Board, following consultation between the chair and the chief executive officer. The chair's fee is determined by the Board following consultation between the Committee and the CEO. Fees are reviewed annually and any increase is usually effective from 1 April. Remuneration for non-executive directors, other than the chair, comprises a basic annual fee for acting as non-executive director of the Company and additional fees for undertaking other roles such as the senior independent director, and chairship of the Audit and Remuneration Committees. Overall fees will remain within the limit set out in the Company's articles of association. The chair and non-executive directors do not participate in any variable pay or share scheme arrangement, although their fees may be paid in cash or shares. May be entitled to benefits such as travel and subsistence and secretarial support, or other benefits as appropriate.	N/A

Share ownership guidelines

The Company has adopted share ownership guidelines to provide further alignment between the interests of the Board and the Company's shareholders. Non-executive directors are expected to build and maintain a shareholding worth not less than 100% of their annual fee.

Consideration of employee views

There is no employee representation on the Committee. However, the Company liaises actively with employees through the employee committee Your Voice and engagement surveys (see page 55). The Group HR director briefs the Board on employees' views, ensuring that the Committee's decisions are taken with appropriate insight to employees' views.

Consideration of shareholder views

The Committee considers shareholder feedback received in relation to the AGM each year at a meeting following the AGM. This feedback, plus any additional feedback received during any meetings from time to time, is then considered as part of the Company's annual review of remuneration policy.

When there are material issues relating to executive remuneration or proposed changes in policy, we engage actively with major shareholders to ensure we understand the range of their views. When significant changes are made within the policy, the Committee chair will inform shareholders of these.

Annual Report on Remuneration

The Annual Report on Remuneration set out on pages 90 to 105 provides details of how our remuneration policy was implemented in the year ended 31 December 2020 and how we intend for the policy to apply for the year ending 31 December 2021. The Annual Report on Remuneration will be subject to an advisory vote at the 2021 AGM.

Governance of the Committee

The Remuneration Committee is comprised exclusively of independent non-executive directors. The members of the Committee, together with their biographies, are given on pages 47 to 49 and details of their attendance at Committee meetings is shown on page 68. The Committee is chaired by Alison Wood. The deputy company secretary is secretary to the Committee.

Terms of reference

The Committee's terms of reference are available on the Company's website at www.costain.com. Copies of the letters appointing the Committee's advisers can be obtained from the general counsel and company secretary.

Remuneration Committee activity

The following table sets out the key remuneration issues which the Committee covered at each of the meetings over the course of the year.

Date	Key agenda items
22 January 2020	Consideration given to the extent to which the performance measures were likely to have been met with regard to the LTIP granted in 2017. Consideration of shareholder feedback relating to the remuneration policy consultation. Determined there would be no pay-out of the 2019 AIP annual cash bonuses. Approved the 2020 AIP performance measures and list of participants. Approved indicative performance targets for the 2020 LTIP grant (subsequently revised). Noted the automatic vesting of the 2018 SDP share awards on 4 April 2020. Reviewed the chair's and non-executive directors' fees for 2020 (no increase). Reviewed the executive directors' and senior executives' salaries for 2020 (no increase).
29 May 2020	Approved methodology for adjustments to share awards for the capital raising completed May 2020. Received an update on matters relating to the remuneration policy submitted to shareholders for approval at the 2020 AGM. Considered appropriate timing of a grant of 2020 LTIP awards and other matters relating to such awards including potential quantum and performance targets.
5 October 2020	Considered matters relating to the SAYE scheme and the decision not to grant any awards in 2020. Granted awards under the 2020 LTIP and determined quantum, performance targets and other terms.
14 December 2020	Ratified the remuneration package for the new CFO, approved by written circulation between meetings. Noted the 2020 LTIP grant to the new CFO, approved by written resolution between meetings. Considered the limited shareholder feedback to the 2020 LTIP grants. Received a governance update paper from the Committee's advisers. Reviewed the proposed performance targets for the 2021 LTIP. Approved the 2021 AIP performance measures and list of participants. Determined 2.5% annual salary increase for the wider workforce for 2021.

Committee effectiveness review

Independent Audit Limited was appointed to undertake a review of the effectiveness of the Board and its Committees. The evaluation process is discussed in greater detail on page 69. On the basis of the review, the Remuneration Committee concluded that the Committee and its chair remained effective and there were no areas for concern in respect of the performance of the Committee or any of its members.

Based on the review, the areas the Committee identified for additional focus in 2021 were in relation to how the executive reward strategy could be broadened to include other aspects of Costain's strategy and corporate objectives together with improved oversight of workforce policies including how these aligned with Costain's strategy and values.

Advice provided to the Committee

Advice was sought, where appropriate, from a number of sources. During the course of the year, the chief executive officer, the chief financial officer, the Group's chair, the Group HR director, and the general counsel and company secretary were invited to attend various meetings of the Committee, although none were present when their own remuneration was being discussed.

To help the Committee in ensuring that the Company's remuneration practices take due account of market and best practice, the Committee has access to experienced specialist independent consultants. During the year, the Committee took advice, as appropriate, from Deloitte LLP (a member firm of Deloitte Touche Tohmatsu Limited).

It is the policy of the Committee to put the remuneration consultant function out to tender on a periodic basis to ensure that the Committee continues to receive independent support and advice of a high standard. Deloitte LLP was appointed in 2014 following a competitive tender process to act as the Committee's remuneration consultants. Deloitte LLP received fees of £20,910 (2019: £44,520) for the year ended 31 December 2020 in respect of services provided to the Committee.

Deloitte LLP is a founder signatory to the Remuneration Consulting Group's Code of Conduct and is considered by the Committee to be objective and independent. During the year, Deloitte LLP also provided advice to the Company in relation to the operation of the Company's share plans and employment tax.

Voting on the Remuneration Report at the AGM in 2020

Last year's Remuneration Report was approved by shareholders with a 99.82% (2019 AGM: 99.73%) vote in favour (including discretionary votes).

Voting on the remuneration policy at the AGM in 2020

The current policy was approved by shareholders with a 90.09% vote in favour (including discretionary votes) at the Company's 2020 AGM.

Annual Report on Remuneration continued

Implementation of policy in the year to 31 December 2020

Single total figure of remuneration for each director

This table and the associated footnotes have been audited by PwC LLP.

	2020							
	Fixed				Variable			
	Salary and fees[1] £	Taxable benefits £	Pension* £	Subtotal	Annual incentive £	LTIP £	Subtotal	Total £
Executive directors								
A J Vaughan[2]	393,125	15,272	39,313	447,710	–	–	–	447,710
H M Willis[3]	38,308	104	3,000	41,412	–	–	–	41,412
A O Bickerstaff[4]	274,548	10,745	60,401	345,694	–	–	–	345,694
Non-executive chair								
P Golby	154,734	–	–	154,734	–	–	–	154,734
Non-executive directors								
J A Lodge	58,536	–	–	58,536	–	–	–	58,536
D McManus[5]	21,858	–	–	21,858	–	–	–	21,858
A J Wood	51,786	–	–	51,786	–	–	–	51,786
J de Rojas	46,536	–	–	46,536	–	–	–	46,536
B Azmy[6]	24,537	–	–	24,537	–	–	–	24,537

	2019							
	Fixed				Variable			
	Salary and fees £	Taxable benefits £	Pension ** £	Subtotal	Annual incentive £	LTIP £	Subtotal	Total £
Executive directors								
A J Vaughan[2]	275,336	9,309	27,597	312,242	–	–	–	312,242
H M Willis[3]	–	–	–	–	–	–	–	–
A O Bickerstaff[4]	324,597	11,659	71,412	407,668	–	–	–	407,668
Non-executive chair								
P Golby	166,460	–	–	166,460	–	–	–	166,460
Non-executive directors								
J A Lodge	62,817	–	–	62,817	–	–	–	62,817
D McManus[5]	46,817	–	–	46,817	–	–	–	46,817
A J Wood	53,817	–	–	53,817	–	–	–	53,817
J de Rojas	46,817	–	–	46,817	–	–	–	46,817
B Azmy[6]	–	–	–	–	–	–	–	–

1 The Board agreed to a 30% reduction in salaries and fees for the three month period from April to June 2020 in response to COVID-19. The salaries and fees disclosed for 2020 are after the reduction.

2 Appointed to the Board on 7 May 2019.

3 Appointed to the Board on 30 November 2020.

4 Stepped down from the Board on 30 November 2020.

5 Stepped down from the Board on 19 June 2020.

6 Appointed to the Board on 19 June 2020.

* A pension contribution of £5,636 was paid into the Company's Group Flexible Retirement Plan for Alex Vaughan and the balance was paid to him directly as a taxable benefit. The amounts quoted for Anthony Bickerstaff and Helen Willis were paid to them both directly as a taxable benefit.

** For the period 8 May 2019 to 31 December 2019 a pension contribution of £6,522 was paid into the Company's Group Flexible Retirement Plan for Alex Vaughan and the balance was paid to him directly as a taxable benefit. The amount quoted for Anthony Bickerstaff was paid to him directly as a taxable benefit.

Additional notes to the single total figure of remuneration

(a) Annual salaries for executive directors prior to reduction for COVID-19

The annual salaries with effect from 1 April 2020 were £425,000 for Alex Vaughan and £326,196 for Anthony Bickerstaff, and were reduced by 30% for three months from April to June 2020 as one part of the actions taken by the Group to mitigate the financial impact of COVID-19 and protect the Group's cash position.

(b) Taxable benefits provided to executive directors

The main benefits available to the executive directors during 2020 (for the period to 30 November 2020 for Anthony Bickerstaff and from 30 November 2020 for Helen Willis), and their approximate values, were a car allowance of £14,048 (2019: £8,546) for Alex Vaughan, £9,625 (2019: £10,500) for Anthony Bickerstaff and £1,117 (2019: nil) for Helen Willis, together with private medical insurance for Alex Vaughan of £1,224 (2019: £763), Anthony Bickerstaff of £1,120 (2019: £1,159) and Helen Willis of £104 (2019: £nil). This package of benefits was unchanged from 2019.

(c) Determination of the 2020 annual incentive

The maximum AIP opportunity for the chief executive and the chief financial officer for the year ended 31 December 2020 remained unchanged from 2019 at 150% of base salary, with one third of the earned AIP award to be deferred into shares for a further two years and two thirds of the earned AIP award paid in cash.

The performance measures established by the Committee for the 2020 AIP continued to align with the Company's strategy while not encouraging inappropriate business risks to be taken. These included inter alia a maximum target of £44.0m for Group EBITA.

The achievement of the performance measures has been reviewed, with appropriate input from the Audit Committee, following the end of the 2020 financial year. As shown in the table below, Alex Vaughan earned an AIP award equal to 26.5% of the maximum opportunity based on an assessment against the performance targets. However, taking into account the overall financial performance of the Group during 2020, the Committee, in consultation and agreement with Alex Vaughan, exercised its discretion to reduce the AIP award pay-out to nil. On departure, Anthony Bickerstaff was not eligible to receive an AIP award for 2020. Helen Willis was appointed to the Board on 30 November 2020 and was not eligible to receive an AIP award for 2020.

	AIP opportunity – maximum percentage of bonus	AIP award – as a percentage of bonus	AIP performance measure			
Performance measures	**Alex Vaughan**	**Alex Vaughan**	**Threshold**	**Maximum**	**Actual performance**	**% Pay-out**
Group EBITA[1]	50%	0%	£36.0m	£44.0m	£18.0m	0
Group Health and Safety[2]	10%	10%	n/a	AFR 0.04	AFR 0.03	0[4]
Order Book (level of secured gross profit)	10%	10%	£64.3m	£78.6m	£79.0m	0[4]
Cash Flow[3] (average month end cash balance)	20%	0%	£79.9m	£83.9m	£73.8m	0
Personal Performance	10%	6.5%	see personal performance section below			0[4]
Total	100%	26.5%				0

1 Earnings before interest, tax and amortisation; calculated on an adjusted basis for 2020. For 2019 and 2018, calculated on an underlying basis before other items.

2 Includes leadership of health and safety engagement and culture.

3 Measured pre-acquisition and investments, adjusted for the capital raising completed May 2020.

4 Discretion exercised by the Committee, in consultation and agreement with Alex Vaughan, to reduce the pay-out to nil taking into account the overall financial performance of the Group during 2020.

Annual Report on Remuneration continued

Personal performance

Personal performance was based on progress towards delivery of the Leading Edge strategy and corporate activities critical to the strategic transformation of the business which were the personal responsibility of the executive directors. Details of Alex Vaughan's performance against his personal objectives are set out below.

Alex Vaughan

Objective	Achievement during the year	Maximum	Award
Technology and consulting	Continued to successfully grow our consultancy and digital capabilities in line with the strategy, however overall profit was below budget. • Consultancy work winning increased significantly, securing key framework positions. • Digital services secured a number of key contracts, but was behind plan for 2020.	2.5%	0%
Developing the senior team, including EDI performance	Successful appointments made to strengthen the executive team, including the appointment of new managing director for transportation, chief financial officer and general counsel and company secretary; and senior succession planning for executive succession. Significant progress in the implementation of our inclusion strategy including being named as a Times Top 50 Employer for Women for a third year. We have also increased female representation on the executive board (56%) and in our senior leadership team.	2.5%	2.5%
Operational excellence	Driven operational excellence and competitiveness achieving savings in line with the cost efficiency programme, including: • robotics process automation • cost base efficiency • operational performance improvements.	2.5%	2.5%
Repositioning Costain brand	Effective marketing campaigns aligned with strategy, principally covering our focus on decarbonisation, increasing digital solutions and cutting edge ways of delivery.	2.5%	1.5%
		10%	6.5%

(d) Vesting of the 4 April 2018 LTIP award

The LTIP award granted on 4 April 2018 was based on EPS and cash conversion performance for the three years ended 31 December 2020.

Performance against the measures and the resulting vesting outcome is shown below. The threshold EPS and cash conversion performance targets were not achieved and as such the 2018 LTIP award lapsed in full, including the 2018 LTIP award granted to Alex Vaughan prior to his appointment to the Board.

(A) EPS performance measures[1] (relating to 75% of the award)

Aggregate EPS for the financial years ended 31 December 2018, 2019 and 2020	Vesting level for awards
Below 99.44 pence	0%
99.44 pence	15%
Between 99.4 pence and 109.37 pence	15% – 100% pro rata
109.37 pence or more	100%
Actual performance: 58.3 pence	Vesting outcome: 0%

1 As adjusted for the capital raising completed May 2020.

For the purposes of the LTIP, EPS is adjusted by the Committee to take account of relevant events (such as acquisitions or disposals and excludes pension interest) and to ensure that the performance measures are assessed on a consistent basis year-to-year.

(B) Cash conversion performance measures (relating to 25% of the award)

Average cash conversion for the financial years ended 31 December 2018, 2019 and 2020	Vesting level for awards
Below 80%	0%
80%	15%
Between 80% and 100%	15% – 100% pro rata
100%	100%
Actual performance: 58%	Vesting outcome: 0%

(e) Pensions and life assurance

Alex Vaughan's and Helen Willis' pension provision is equal to 10% of salary in line with the wider workforce. Anthony Bickerstaff's pension provision was 22% of salary and reflected a long standing contractual entitlement. Life assurance cover of four times' base salary is provided through the Costain Life Assurance Scheme. The annual premiums payable in respect of life assurance for Alex Vaughan, Anthony Bickerstaff (until he stepped down from the Board on 30 November 2020) and Helen Willis (from her appointment to the Board on 30 November 2020) were £2,407 (2019: £1,544), £1,543 (2019: £1,816) and £155 (2019: £nil) respectively.

The Group offers a Group Flexible Retirement Plan which was set up in 2009 with Standard Life for employees and senior management. Alex Vaughan is a participant of this scheme.

(f) Chair

Remuneration for the chair comprised a basic annual fee of £167,280 from 1 April 2020 which was reduced by 30% for three months from April to June 2020 as one part of the actions taken by the Group to mitigate the financial impact of COVID-19 and protect the Group's cash position.

(g) Non-executive directors

Remuneration for non-executive directors, other than the Group's chair, comprises a basic annual fee for acting as a non-executive director of the Company and additional fees for the senior independent director and chairship of the Audit and Remuneration Committees. The annual fees set with effect from 1 April 2020 were as follows, but, as for the chair, the fees were reduced by 30% for three months from April to June 2020 as part of the actions taken by the Group to mitigate the financial impact of COVID-19 and protect the Group's cash position:

2020 Fees	Basic Fee	Senior independent director	Audit Committee chair	Remuneration Committee chair
Fees	£47,048	£6,600	£9,400	£7,000

Annual Report on Remuneration continued

Grants made during the year

These tables and the associated footnotes have been audited by PwC LLP.

2020 LTIP Grant

Grants were made under the LTIP on 7 October 2020 to Alex Vaughan and other members of the senior leadership team, and to Helen Willis on appointment to the Board on 30 November 2020.

Taking into account market conditions, the grant level for the executive directors was reduced from 100% of salary to 55% of salary, with a pro rata reduction then applied to Helen Willis' award to reflect her period of service during the performance period.

The award vests after three years, subject to continued service and the achievement of performance measures (as set out below), but cannot be exercised until after five years (the final two years being subject only to continued service), thereby ensuring long-term alignment of the executive directors' and shareholders' interests.

Performance measures for the 2020 LTIP are as follows:

(A) EPS performance measure (relating to two thirds of the award)

Aggregate EPS over the financial years ended 31 December 2020, 2021 and 2022	Vesting level
Below 22.6 pence	0%
22.6 pence	15%
Between 22.6 pence and 26.7 pence	15% – 100% pro rata
26.7 pence or more	100%

(B) Cash conversion performance measure (relating to one third of the award)

Average cash conversion for the financial years ended 31 December 2020, 2021 and 2022	Vesting level
Below 80%	0%
80%	15%
Between 80% and 100%	15% – 100% pro rata
100%	100%

The Committee also has the ability to exercise discretion to make adjustments to the formulaic vesting outcome if it is not considered to be appropriate taking into account business performance during the performance period. This includes consideration of any "windfall gains" at the point of vesting. In assessing whether there is any "windfall gain", the Committee will take into account a number of factors, including share price performance over the vesting period, financial performance of the business, and the impact of COVID-19 and any other significant events which have impacted the Company's share price or the market as a whole.

The share awards granted under the 2020 LTIP are as follows:

	Number of shares	Face value[1]	End of performance period	Threshold vesting
Alex Vaughan	553,909	£233,750	31 December 2022	15%
Helen Willis	258,705	£138,925	31 December 2022	15%

1 Valued using the share price on the business day prior to the date of grant (6 October 2020 for Alex Vaughan and 27 November 2020 for Helen Willis), being 42.2 pence and 53.7 pence per share respectively.

SDP

No awards were granted under the SDP to the executive directors in 2020 as no bonus was paid under the AIP for 2019 (see page 104).

All-employee share plan

The Company did not invite employees to participate in the SAYE scheme in 2020 and therefore no SAYE awards were granted to the executive directors during 2020.

Exit payments made during the year

This section has been audited by PWC LLP.

As announced on 5 October 2020, Anthony Bickerstaff, after 14 years as chief financial officer, stepped down from the Board on 30 November 2020.

The remuneration arrangements in respect of Mr Bickerstaff's departure, which are in line with the remuneration policy, are summarised below.

Salary, pension and benefits	He continued to receive his salary, pension and benefits until 30 November 2020. Following 30 November 2020, he received a payment of £25,406 in respect of accrued but untaken annual leave during 2020. In respect of the period from 30 November 2020 to 30 September 2021, he will be paid a monthly sum of £27,183 in respect of his salary and a cash supplement in lieu of pension contribution, and will continue to receive his other benefits (pension, car allowance, private health insurance and life assurance cover) subject to mitigation.
AIP 2020	He did not receive a bonus in respect of the 2020 financial year.
Unvested SDP awards	He holds a deferred share award granted under the SDP in respect of his 2018 bonus over 31,051 shares. Recognising his contribution to the business over the relevant bonus period and the fact that this award is not subject to further performance conditions, Anthony Bickerstaff was permitted to retain this award which will vest at the originally envisaged time in April 2021, subject to the rules of the SDP.
Unvested / unreleased LTIP awards	The second tranche of his 2016 LTIP award (which is vested over 46,703 shares) is due to be released in April 2021. Since this award was earned based on performance over the three years to 31 December 2018, the Remuneration Committee has exercised discretion to allow him to retain this award without a reduction for time pro-rating. There will be no early release of the award. His 2018 LTIP remained capable of vesting based on performance over the three years ending 31 December 2020. As disclosed on pages 94 and 95, the 2018 LTIP award has since lapsed in full. His 2019 LTIP lapsed in full. He was not granted an LTIP award in 2020.
SAYE	All outstanding SAYE options have been treated in accordance with the rules of the scheme, with the 2018 and 2019 awards lapsing and the 2017 award remaining exercisable until 30 April 2021.
Legal fees	He received a contribution of £3,300 (excluding VAT) towards the legal fees incurred in connection with the cessation of his employment.

Implementation of policy in the year to 31 December 2021

Salary

The chief executive officer will receive a salary increase in 2021 of 2%, effective 1 April. A 2.5% salary increase will be applied across the Company in 2021. While above inflation, the rise was determined to be appropriate in recognition of there being no pay increases in 2020. The base salary for Helen Willis on her appointment as chief financial officer was £360,000. This was set taking into account the size and complexity of the Company, her skills and experience, her remuneration package as a whole, internal relativities and affordability to the Company, and ensuring that the Company does not pay more than is necessary. Helen, having been recently appointed, will not receive an increase in 2021.

	Salary 2021	Salary 2020	% change
Alex Vaughan	£433,500	£425,000	2%
Helen Willis	£360,000	£360,000	Nil

Chair's fee

The chair's basic annual fee will be increased by 2% with effect from 1 April 2021 to £170,600.

Non-executive director fees

Non-executive directors' fees will be increased by 2% with effect from 1 April 2021, as shown in the table below:

2021 Fees	Basic Fee	Senior independent director	Audit Committee chair	Remuneration Committee chair
Fees	£48,000	£6,700	£9,600	£7,200

Annual Report on Remuneration continued

2021 Annual incentive

Executive directors and the wider senior leadership team are eligible for annual bonuses under the AIP to encourage improved performance, with targets established by the Committee to align rewards with the Company strategy. The targets are clearly aligned with the delivery of our strategy. Their achievement will be reviewed, with appropriate input from the Audit Committee, at the end of the year.

The maximum AIP opportunity for the chief executive officer and the chief financial officer for the year ending 31 December 2021 will remain unchanged from 2020 at 150% of base salary, with one third of earned AIP deferred into shares for a further two years, to be awarded under the SDP, and two thirds of earned AIP paid in cash.

The performance measures for the 2021 AIP are as follows:

	2021 AIP opportunity – maximum percentage of bonus	
Performance measures	**Chief executive officer**	**Chief financial officer**
Group EBITA (with 90% cash conversion)	50%	50%
Group health and safety	10%	10%
Profit secured for 2022	15%	15%
Cash flow (average month end cash balances)	15%	15%
Personal performance	10%	10%
Total	100%	100%

The Committee has chosen not to disclose in advance the performance targets for the year ending 31 December 2021, as these include items which the Committee considers commercially sensitive. The Committee will continue to provide retrospective disclosure of performance targets in next year's Annual Report on Remuneration to the extent the Committee determines these targets are not commercially sensitive.

2021 LTIP Grant

The grant level for the executive directors will be up to 100% of salary. It is expected the LTIP awards will be granted in early April 2021 and the Committee will finalise the quantum of the grants at that time having regard to share price performance and market conditions at that time. As with the 2020 awards, subject to the achievement of performance measures as set out below, LTIP shares which vest after three years will only be released after five years, thereby ensuring long-term alignment of the executive directors' and shareholders' interests.

As with the 2020 LTIP awards, the measures will be two thirds EPS and one third cash conversion, reflecting that the sustainable generation of cash backed profits is a key element to the future success of the Company.

The proposed targets are set out below.

EPS performance measure

Aggregate EPS over the financial years ending 31 December 2021, 2022 and 2023	Vesting level for awards
Below 27.9 pence	0%
27.9 pence	15%
Between 27.9 pence and 32.4 pence	15% – 100% pro rata
32.4 pence or more	100%

The Committee believes that EPS remains an appropriate metric to use under the LTIP, as growth in EPS is one of the key drivers of the Company's share price. As with previous LTIP awards, EPS shall be calculated on an adjusted basis as determined by the Committee to take account of relevant events (such as acquisitions or disposals) and ensure that the performance measures are assessed on a consistent basis year-to-year.

Average cash conversion for the financial years ending 31 December 2021, 2022 and 2023	**Vesting level for awards**
Below 80%	0%
80%	15%
Between 80% and 100%	15% – 100% pro rata
100%	100%

Cash conversion is adjusted cash flow from operations (excluding cash movements in provisions and pension deficit) divided by EBITDA. It is measured as average cash flow conversion over the three-year period ending 31 December 2023.

Cash flow from operations will be adjusted to recognise the timing of cash inflows at the year-end.

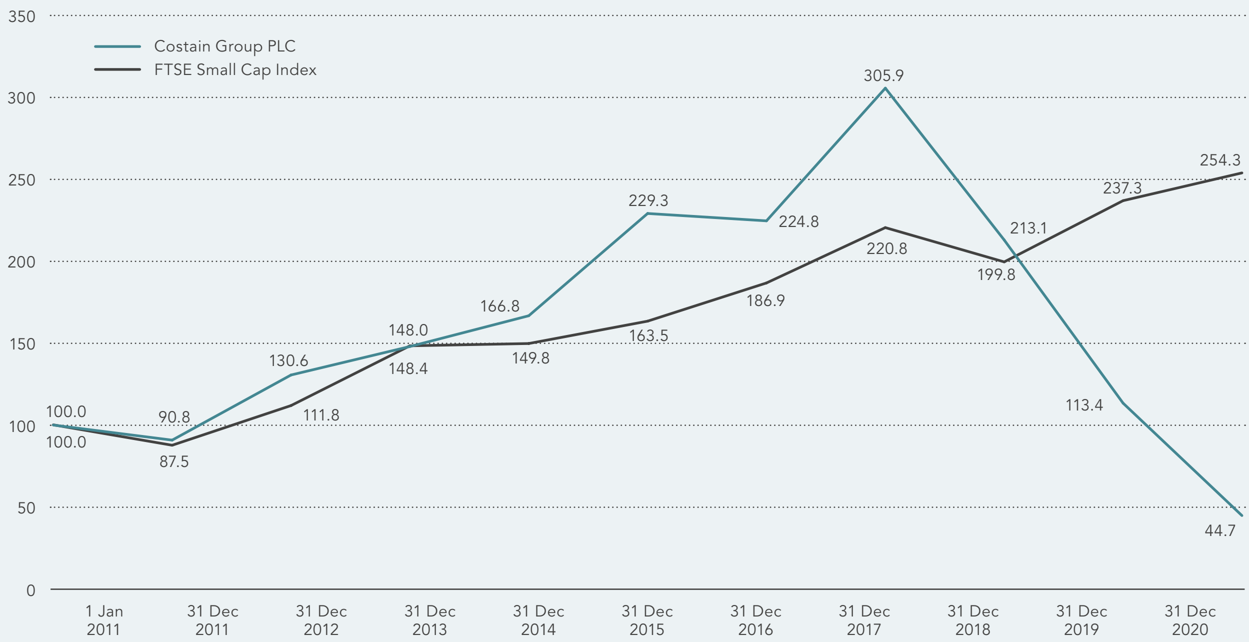
The Committee has the discretionary power to vary these targets, should circumstances change, so that the original targets are no longer considered appropriate (e.g. in the case of a material acquisition or divestment in the Group or other material transaction).

A clawback and malus provision is incorporated in the AIP and the LTIP with regard to any material misstatement to audited accounts, an error in calculation of targets resulting in an overpayment, gross misconduct or criminal behaviour on the part of a participant, reputational damage and a serious corporate failure. The Committee also has the ability to exercise discretion to make adjustments to the formulaic payout/vesting of variable incentives if the formulaic outcome is not considered to be appropriate.

Other information

Performance graph

The graph below shows the value, to 31 December 2020, of £100 invested in Costain Group PLC on 1 January 2011 compared with the value of £100 invested in the FTSE SmallCap Index. The Committee believes that the FTSE SmallCap Index is the most appropriate index to use as it is the index in which the Company is a constituent and comprises companies of a similar size to Costain.



Change in chief executive officer's remuneration

	Year ending 31 December										
	2011	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**[1]		**2020**
Chief executive officer	AW	AW	AW	AW	AW	AW	AW	AW	AW	AV	AV
Total remuneration	£1,228,332	£1,089,337	£1,251,239	£1,329,007	£1,414,381	£1,089,943	£1,707,094	£1,560,601	£211,927	£312,242	£447,710
AIP (%)	86%	55%	75%	71.6%	79.8%	75.4%	81%	62.6%	Nil	Nil	Nil
LTIP vesting (%)	100%	100%	50%	50%	50%	Nil%	79.1%	100%	Nil	Nil	Nil

1 Andrew Wyllie (AW) stepped down from the Board on 7 May 2019 and Alex Vaughan (AV) was appointed to the Board on 7 May 2019.

Annual Report on Remuneration continued

CEO pay ratio

The table below shows, for 2019 and 2020, the ratio of the pay of the CEO to that of the best full time equivalent lower quartile, median and upper quartile employee within the Group.

Year	Methodology used	25th Percentile Pay Ratio	50th Percentile Pay Ratio	75th Percentile Pay Ratio
2020	Option B	13:1	8:1	6:1
2019*	Option B	17:1	10:1	7:1

* The Single Total Figure of Remuneration for the CEO has been calculated as the total remuneration paid to Andrew Wyllie for the period 1 January 2019 to 7 May 2019 plus the total remuneration paid to Alex Vaughan for the period 8 May 2019 to 31 December 2019.

We have chosen to use Option B of the available methodologies to calculate the ratio. This methodology is based on the data collected as part of gender pay reporting. Option B was selected on the basis that it is an efficient and robust approach, recognising that the data required to calculate the ratio comes from multiple sources. Analysis has been performed to ensure that the lower quartile, median and upper quartile employees are reasonably representative.

The table below shows the UK employee percentile pay and benefits used to determine the above pay ratios and the salary component for each figure.

£	CEO	25th percentile	Median	75th percentile
2020				
Total pay and benefits	£447,710	£34,016	£57,580	£73,844
Salary component	£393,125	£32,948	£45,934	£61,669
2019				
Total pay and benefits	£524,169	£30,923	£50,903	£75,304
Salary component	£445,319	£29,837	£45,170	£60,137

The UK employee percentile pay and benefits has been calculated based on the amount paid or receivable for the relevant financial year. The calculations are on the same basis as required for the CEO's remuneration for single total figure purposes. The calculations were performed as at the final day of the relevant financial year.

A high proportion of the chief executive's total reward is performance related and delivered in shares. The ratios will therefore depend significantly on the chief executive's variable pay outcomes and may fluctuate year to year.

The ratios have reduced in 2020 due (i) to the reduction in salaries from April to June 2020 as part of the actions taken by the Group to mitigate the financial impacts of COVID-19 and protect the Group's cash position and (ii) to the change in CEO on 7 May 2019 with Alex Vaughan's salary and pension provision being set lower than his predecessor.

The Board believes that the median pay ratio is consistent with the Group's wider policies on pay, reward and progression.

Annual percentage change in remuneration of directors compared to all employees

The table below shows the annual percentage change in each of the Directors' remuneration compared to the average employee remuneration.

	% change between 2019 and 2020		
	Salary and fees[1]	Benefits	Annual bonus
Executive directors			
A J Vaughan[2]	n/a	n/a	n/a
H M Willis[3]	n/a	n/a	n/a
A O Bickerstaff[4]	n/a	n/a	n/a
Non-executive chair			
P Golby	(7)	–	–
Non-executive directors			
J A Lodge	(7)	–	–
D McManus[5]	n/a	n/a	n/a
A J Wood	(4)	–	–
J de Rojas	(1)	–	–
B Azmy[6]	n/a	n/a	n/a
Average employee[7]	(0.8)[8]	6.2[9]	(18)[10]

1 The Board agreed to a 30% reduction in salaries and fees for the three month period April to June 2020 in response to COVID-19. There has therefore been a reduction in salaries and fees received by directors during 2020 compared to 2019.

2 Appointed to the Board on 7 May 2019 and therefore annual percentage change in remuneration is not applicable.

3 Appointed to the Board on 30 November 2020 and therefore annual percentage change in remuneration is not applicable.

4 Stepped down from the Board on 30 November 2020 and therefore annual percentage change in remuneration is not applicable.

5 Stepped down from the Board on 19 June 2020 and therefore annual percentage change in remuneration is not applicable.

6 Appointed to the Board on 19 June 2020 and therefore annual percentage change in remuneration is not applicable.

7 The percentage change in each element of employee remuneration is based on all monthly paid UK employees across the Group. This population has been selected as no employees are directly employed by the listed parent entity.

8 Average salary for employees is calculated based on the annual monthly UK salary bill divided by the average number of monthly paid UK employees. The wider workforce (those earning over £45,000) agreed to 10% to 30% reductions in salaries for the period April to June 2020 in response to COVID-19. There has therefore been a reduction in salaries received by some employees during 2020 compared to 2019 which impacts the average employee figure.

9 Employee benefits are calculated based on the total cost to the Company of private medical insurances, life assurance, company cars and car allowances, averaged per head for monthly paid employees.

10 Bonus figures earned are calculated on the total bonus payments made to monthly employees divided by the average number of monthly paid employees.

Relative importance of spend on pay

The table below illustrates the change in expenditure by the Company on remuneration paid to all the employees of the Group and distributions to shareholders from the financial year ended 31 December 2019 to the financial year ended 31 December 2020.

	2020 £m	2019 £m	% change
Overall expenditure on pay	182.0	206.5	(12)%
Dividends and share buybacks	nil	14.8	(100)%

These matters were selected to be shown as they represent key distributions by the Group to its stakeholders.

Directors' appointments

The executive directors have service contracts that can be terminated by either party on the giving of 12 months' notice.

The non-executive directors have letters of appointment. The independent non-executive directors are appointed for initial three year terms which thereafter may be extended. The appointment of a non-executive director can be terminated by not less than one month's notice on either side. Each non-executive director is subject to re-election at the AGM each year.

Annual Report on Remuneration continued

The dates of each of the director's original appointment and expiry of current term are as follows:

Director	Date of original appointment	Effective date of latest appointment letter	Expiry of current term [1, 3]
Alex Vaughan	7 May 2019	7 May 2019	Terminable on 12 months' notice
Helen Willis	30 November 2020	30 November 2020	Terminable on 12 months' notice
Paul Golby	5 May 2016	5 May 2019	5 May 2022
Jane Lodge	1 August 2012	8 May 2018[4]	1 August 2021[4]
Alison Wood	1 February 2014	1 February 2020	1 February 2023
Jacqueline de Rojas	20 November 2017	20 November 2020	20 November 2023
Bishoy Azmy	19 June 2020	19 June 2020	n/a[2]
Tony Quinlan	1 February 2021	1 February 2021	1 February 2024

1 The appointment of a non-executive director can be terminated by reasonable notice on either side (of not less than one month).

2 Bishoy Azmy joined the Board as non-independent non-executive director and representative of ASGC, which has a 15.15% shareholding in the Company following the 2020 capital raising.

3 In accordance with the 2018 UK Corporate Governance Code, at each AGM all the directors are required to seek election or re-election.

4 Jane Lodge was appointed senior independent director with effect from 8 May 2018 and will step down from the Board with effect from the 2021 AGM.

External directorships

Anthony Bickerstaff was reappointed, with effect from 12 November 2017, for a second three year term as a non-executive director and chair of the Audit Committee of Low Carbon Contracts Company Limited and Electricity Settlements Company Limited, and, in respect of his appointment for the period from 1 January 2020 until he stepped down from the board of Low Carbon Contracts Company Limited and Electricity Settlements Company Limited on 2 October 2020, he was paid £23,488 (2019: £31,000).

Anthony Bickerstaff was appointed to the Board of Wincanton plc with effect from 1 September 2020 and, in respect of the period from 1 September 2020 until he stepped down from the Board of Costain Group PLC on 30 November 2020, he was paid £12,000 (2019: £nil).

Mr Bickerstaff retained these fees in accordance with the remuneration policy.

The following tables and the associated footnotes have been audited by PwC LLP.

Share awards under the Long-Term Incentive Plan (LTIP)

Details of the executive directors' participation in the LTIP are as follows:

Director	Date granted	Balance at 1 January 2020[a,b]	Granted during year	Share price at date of grant	Vested during year	Lapsed during year	Market price at date of exercise	Average market price[c]	Value of shares at date of sale/ retention of balance[d]	Balance at 31 December 2020[e]	Actual/ expected vesting/ release date
Alex Vaughan	05.04.17[3]	19,896	–	455p	–	19,896	–	–	–	–	April 2020 April 2022
	04.04.18[4]	20,130	–	461p	–	–	–	–	–	21,388	April 2021 April 2023
	07.05.19[5]	130,769	–	325p	–	–	–	–	–	138,942	May 2024
	07.10.20[6]	–	553,909	42.2p	–	–	–	–	–	553,909	April 2025
Anthony Bickerstaff	09.03.15[1]	37,130	–	316p	54,291[f]	–	75p	75p	£21,580	–	March 2018 March 2020
	06.04.16[2]	43,956	–	346.25p	–	–	–	–	–	46,703	April 2019 April 2021
	05.04.17[3]	68,573	–	455p	–	68,573	–	–	–	–	April 2020 April 2022
	04.04.18[4]	69,370	–	461p	–	18,290[g]	–	–	–	35,810[g] 19,605[g]	April 2021 April 2023
	07.05.19[5]	100,368	–	325p	–	106,641[h]	–	–	–	–[g]	May 2024
Helen Willis	30.11.20	–	258,705	53.7p	–	–	–	–	–	258,705[i]	April 2025

a Awards under the LTIP are structured as options with a nil exercise price.

b Balance at the date of appointment to the Board on 30 November 2020 for Helen Willis.

c At date of sale/ retention of balance.

d Excluding shares deducted to settle tax sold at market price on date of exercise.

e Other than 2020 awards which were granted post capital raising, all awards adjusted for the capital raising using the adjustment factor of 1.0625.

f At vesting of the second tranche of the award on 9 March 2020, dividend shares of 13,968 were accrued. The total award of 51,098 was subsequently adjusted for the capital raising using the adjustment factor of 1.0625. The award over 54,291 shares was exercised on 12 June 2020.

g On stepping down from the Board on 30 November 2020, the 2018 LTIP award for Mr Bickerstaff was prorated. The award had previously been adjusted for the capital raising using the adjustment factor of 1.0625 resulting in an award over 73,705 shares.

h On stepping down from the Board on 30 November 2020, the 2019 LTIP award for Mr Bickerstaff lapsed in full.

i The award to Helen Willis is subject to a specific condition that it will lapse if Helen ceases employment (or gives or receives notice of cessation of employment) for any reason before 30 November 2021.

1 100% of the award was subject to an aggregate EPS target for the financial years ended 31 December 2015, 2016 and 2017 of 83.9 pence (15% vests) to EPS of 96.9 pence (100% vests) on a sliding scale between 15% and 100% pro rata to the EPS actually achieved. 50% of the award vested three years after grant, subject to the satisfaction of the performance conditions over the three-year financial period ended 31 December 2017, while the remaining 50% of the award vested on the fifth anniversary of the date of grant (with no further performance conditions applying). This award vested by 79.1% based on aggregate EPS performance during the period.

2 100% of the award was subject to an aggregate EPS target for the financial years ended 31 December 2016, 2017 and 2018 of 91.7 pence (15% vests) to EPS of 101.7 pence (100% vests) on a sliding scale between 15% and 100% pro rata to the EPS actually achieved. 50% of the award vested three years after grant, subject to the satisfaction of the performance conditions over the three-year financial period ending 31 December 2018, while the remaining 50% of the award vested on the fifth anniversary of the date of grant (with no further performance conditions applying). This award vested by 100% based on aggregate EPS performance during the period. The award was not reduced on the departure of Anthony Bickerstaff (see page 97).

3 Performance targets were as follows:

(a) an EPS target (relating to 75% of the award) of 101.4p (for 15% vesting) and 113.6p (for 100% vesting), with vesting on a straight-line basis between the two and

(b) a cash conversion target (relating to 25% of the award) of 80% (for 15% vesting) and 100% (for 100% vesting), with vesting on a straight-line basis between the two.

50% of the award will normally vest three years after grant, subject to the satisfaction of the performance conditions over the three-year financial period ending 31 December 2019, while the remaining 50% of the award will normally vest on the fifth anniversary of the date of grant (with no further performance conditions applying) provided, ordinarily, the individual remains an employee or officer of the Company. This award lapsed in full.

4 Performance targets are as follows:

(a) an EPS target (relating to 75% of the award) of 99.44p (for 15% vesting) and 109.37p (for 100% vesting), as adjusted following the capital raising in May 2020, with vesting on a straight-line basis between the two and

(b) a cash conversion target (relating to 25% of the award) of 80% (for 15% vesting) and 100% (for 100% vesting), with vesting on a straight-line basis between the two.

50% of the award will normally vest three years after grant, subject to the satisfaction of the performance conditions over the three-year financial period ending 31 December 2020, while the remaining 50% of the award will normally vest on the fifth anniversary of the date of grant (with no further performance conditions applying) provided, ordinarily, the individual remains an employee or officer of the Company. This award is due to lapse in full based on the performance against these targets during the period.

Annual Report on Remuneration continued

Share awards under the Long-Term Incentive Plan (LTIP) continued

5 Performance targets are as follows:

(a) an EPS target (relating to 75% of the award) of 108.77p (for 15% vesting) and 119.63p (for 100% vesting), as adjusted following the capital raising in May 2020, with vesting on a straight-line basis between the two and

(b) a cash conversion target (relating to 25% of the award) of 80% (for 15% vesting) and 100% (for 100% vesting), with vesting on a straight-line basis between the two.

The award will normally vest three years after grant, subject to the satisfaction of the performance conditions over the three-year financial period ending 31 December 2021, but will not normally be released and become exercisable until the fifth anniversary of the date of grant (with no further performance conditions applying) provided, ordinarily, the individual remains an employee or officer of the Company.

6 Performance targets are as follows:

(a) an EPS target (relating to two thirds of the award) of 22.6p (for 15% vesting) and 26.7p (for 100% vesting), with vesting on a straight-line basis between the two and

(b) a cash conversion target (relating to one third of the award) of 80% (for 15% vesting) and 100% (for 100% vesting), with vesting on a straight-line basis between the two.

The award will normally vest three years after grant, subject to the satisfaction of the performance conditions over the three-year financial period ending 31 December 2022, but will not normally be released and become exercisable until the fifth anniversary of the date of grant (with no further performance conditions applying) provided, ordinarily, the individual remains an employee or officer of the Company.

The LTIP awards, which are expressed as options, have a nil exercise price. At 31 December 2020, the derived mid-market price of the ordinary shares in the Company, as advised by the Company's brokers, was 59.2 pence. The range of the closing share price of the ordinary shares during 2020 was 31.8 pence to 195.3 pence.

Share awards under the Share Deferral Plan (SDP)

Details of the executive directors' participation in the SDP are as follows:

Director	Date granted	Balance at 1 January 2020[1,2]	Granted during year	Share price at date of grant	Vested during year[3]	Lapsed during year	Market price at date of exercise	Average market price[4]	Value of shares at date of sale/ retention of balance[5]	Balance at 31 December 2020[1,6,7]	Actual/ expected vesting date[8]
Alex Vaughan	04.04.18	12,109	–	461p	23,335	–	75p	75p	£9,275	0	April 2020
	03.04.19	16,076	–	342.5p	–	–	–	–	–	17,080	April 2021
Anthony Bickerstaff	04.04.18	27,410	–	461p	52,824	–	75p	75p	£20,997	0	April 2020
	03.04.19	29,225	–	342.5p	–	–	–	–	–	31,051	April 2021
Helen Willis	–	–	–	–	–	–	–	–	–	–	–

1 Awards under the SDP are structured as options with a nil exercise price.

2 Balance as at date of appointment on to the Board on 30 November 2020 for Helen Willis.

3 The adjusted number of shares following the capital raising in May 2020 (adjustment factor of 1.0625). In addition, dividend shares were awarded upon vesting – Alex Vaughan: 9,854 shares pre-capital raising; Anthony Bickerstaff: 22,307 shares pre-capital raising which are also included (adjusted factor applied) in this figure. Both Alex Vaughan and Anthony Bickerstaff exercised their 2018 SDP awards on 12 June 2020.

4 At date of sale/ retention of balance.

5 Excluding shares deducted to settle tax sold at market price on date of exercise.

6 The adjusted number of shares following the capital raising (adjustment factor of 1.0625).

7 Balance at the date of stepping down from the Board on 30 November 2020 for Anthony Bickerstaff. The award was not reduced on departure (see page 97).

8 Awards become exercisable on or around the second anniversary of the date of grant in accordance with the Rules of the SDP and subject, ordinarily, to the continued employment of the participants. To the extent that the awards become exercisable, they will remain exercisable until the 10th anniversary of the date of grant.

Share Options under the SAYE Scheme (SAYE)

Details of the executive directors' SAYE options are as follows:

Director	Date granted	Balance at 1 January 2020[1]	Granted during year	Exercise price[2]	Exercised during year	Lapsed during year	Market price at date of exercise	Market price at date of retention	Value of shares at date of retention	Balance at 31 December 2020[3]	Exercised/ exercisable from/to
Alex Vaughan	25.09.17	1,319	–	336.30p	–	–	–	–	–	1,401[4]	Nov 2020 May 2021
	24.09.18	1,314	–	316.90p	–	–	–	–	–	1,396	Nov 2021 May 2022
	23.09.19	1,398	–	111.40p	–	–	–	–	–	1,485	Nov 2022 May 2023
Anthony Bickerstaff	26.09.16	1,251	–	279p	–	1,251	–	–	–	–	Nov 2019 May 2020
	25.09.17	1,289	–	336.30p	–	–	–	–	–	1,369[4]	Nov 2020 May 2021
	24.09.18	1,314	–	316.90p	–	1,396[3,5]	–	–	–	–	Nov 2021 May 2022
	23.09.19	1,398	–	111.40p	–	1,485[3,5]	–	–	–	–	Nov 2022 May 2023
Helen Willis	–	–	–	–	–	–	–	–	–	–	–

1 Balance at the date of appointment to the Board on 30 November 2020 for Helen Willis.

2 Exercise price adjusted for the capital raising completed May 2020 (adjustment factor of 0.9412) with the exception of the 2016 grant to Anthony Bickerstaff which had already lapsed before the capital raising.

3 Adjusted number of shares under option following the capital raising completed May 2020 (adjustment factor of 1.0625).

4 Option still outstanding as at 31 December 2020 (or on departure at 30 November 2020 for Anthony Bickerstaff), the market price of a share being lower than the option price and therefore not exercised.

5 The 2018 and 2019 SAYE options lapsed on Mr Bickerstaff's departure from the Company.

No executive director exercised a SAYE share option in 2020 and therefore there was no gain on exercise.

The Company granted no options under the SAYE Scheme in 2020.

Directors' shareholdings

Details of the directors' share interests in the Company as at 31 December 2020, and at the date of this report, are as follows:

Director	Beneficially owned	Outstanding SDP awards	Outstanding LTIP awards	Outstanding SAYE awards	Shareholding guidelines (% of salary/fee)	Actual shareholding (% of salary/fee)[1]
Alex Vaughan	228,461[2]	17,080[3]	714,239[3]	4,282[3]	200%	95.52%
Helen Willis	–	–	258,705	–	200%	0%
Paul Golby	118,333[4]	–	–	–	100%	96.31%
Jane Lodge	66,324	–	–	–	100%	129.00%
Alison Wood	19,166	–	–	–	100%	41.63%
Jacqueline de Rojas	12,828[4]	–	–	–	100%	51.37%
Bishoy Azmy	–[5]	–	–	–	100%	100%+[5]
Tony Quinlan[6]	–	–	–	–	100%	0%

1 Based on the calculation methodology set out in the Company's Share Ownership Guidelines.

2 Part held by persons closely associated.

3 2019 SDP, 2018 LTIP and 2017 and 2018 SAYE awards were granted prior to Alex Vaughan becoming a director.

4 Held by persons closely associated.

5 As the director representative of the shareholder ASGC, the shareholding of ASGC counts towards the shareholding for Bishoy Azmy in accordance with the Company's Share Ownership Guidelines. Bishoy Azmy held no shares in his own name.

6 Tony Quinlan was appointed to the Board on 1 February 2021 and data reflects his share interests on appointment and at the date of this report.

The executive directors are expected to build and maintain a shareholding of not less than 200% of base salary through the retention of vested share awards or through open market purchases. The non-executive directors are also expected to build and maintain a shareholding of 100% of their fee.

The directors submit to the members their report and accounts of the Company for the year ended 31 December 2020.

The Governance Report on pages 46 to 105 and the Strategic Report on pages 14 to 45 (and in particular pages 22 to 30, 54 to 57 and 60 and 61 with regard to information about employee involvement, diversity and greenhouse gas emissions) are also incorporated into this report by reference.

The Company has chosen to include the disclosure of likely future developments of the Company's business in the Strategic Report.

Incorporation and constitution

Costain Group PLC is domiciled in England and incorporated in England and Wales under Company Number 1393773.

Annual General Meeting (AGM)

The Company's 2021 AGM will be held on Thursday 6 May 2021 at Costain House, Vanwall Business Park, Maidenhead, Berkshire SL6 4UB. A circular incorporating the Notice of AGM accompanies this annual report.

(Loss)/profit, dividend payments and dividend policy

The loss after tax for the financial year ended 31 December 2020 was £78.0m (2019: loss £2.9m).

No interim dividend was paid during the year ended 31 December 2020 (2019: interim dividend 3.80 pence per share). The Company will pay no final dividend in respect of the year ended 31 December 2020 (2019: no final dividend). The total dividend paid for the year will therefore be nil (2019: 3.80 pence per share).

The Board recognises the importance of dividends to shareholders and will continue to review the timing of the reinstatement of future dividends in the light of the Group's performance, cash flow requirements and the importance of maintaining a strong balance sheet.

Dividends and other distributions

The Company may, by ordinary resolution, from time to time declare dividends not exceeding the amount recommended by the Board. Subject to the Companies Act 2006, the Board may pay interim dividends, and also any fixed rate dividend, whenever the financial position of the Company, in the opinion of the Board, justifies its payment.

If the directors act in good faith, they are not liable for any loss that shareholders may suffer because a lawful dividend has been paid on other shares which rank equally with or behind their shares.

The Board may withhold payment of all or any part of any dividends or other monies payable in respect of the Company's shares from a person with a 0.25% or more interest in a class of the Company's shares if such a person has been served with a restriction notice after failure to provide the Company with information concerning interests in those shares required to be provided under the Companies Act 2006.

Share capital

The Company's share capital consists of ordinary shares with a nominal value of 50 pence each. The issued share capital of the Company as at 31 December 2020 was £137,474,870.50, consisting of 274,949,741 ordinary shares of 50 pence each. Further details of the share capital of the Company can be found in note 22 on page 172.

The awards granted in April 2017 under the 2014 Long-Term Incentive Plan (LTIP) matured as at 31 December 2019, resulting in nil vesting as the performance criteria attached to the awards were not met. Further details regarding the nil vesting of the 2017 LTIP awards can be found in the Directors' Remuneration Report on page 103. Details regarding the 2018 LTIP awards that are due to vest in April 2021 but have not met their performance targets, can also be found in the Directors' Remuneration Report on pages 94 and 95.

Share options granted under the Company's Save As You Earn Scheme (SAYE) in November 2017 (at a post capital raising adjusted option price of 363.30p) matured as at 1 November 2020. As the market price was less than the option price, the maturity resulted in the exercise of nil options over ordinary shares as at 31 December 2020. Further details of the SAYE Scheme can be found on page 105 of the Directors' Remuneration Report.

At the 2019 AGM, shareholders approved the renewal of the scrip dividend scheme which authorises the directors to offer and allot ordinary shares in lieu of cash dividends to those shareholders who elect to participate in the scrip dividend. This authority was granted for a period of three years (until the conclusion of the 2022 AGM), which is in line with the guidelines of the Investment Association (IA) which requires shareholder approval to be sought to renew the directors' authority to offer a scrip dividend scheme at least once every three years.

In 2020, as there were no dividends paid, nil ordinary shares of 50 pence each were allotted to shareholders in respect of dividends. Further information on the scrip dividend scheme is set out on page 182. Details about joining the scrip dividend scheme can also be found on the Company's website at www.costain.com.

Restrictions on transfer of securities

There are no restrictions on the transfer of securities in the Company, except:

- that certain restrictions may from time to time be imposed by laws and regulations (for example, insider trading laws) and
- pursuant to the Company's Share Dealing Code, whereby the directors and certain employees of the Company require the approval of the Company to deal in the Company's ordinary shares.

The Company is not aware of any agreements between holders of securities that may result in restrictions on the transfer of securities.

Major shareholders

As at 31 December 2020 the Company had been notified, under the Disclosure Guidance and Transparency Rules issued by the Financial Conduct Authority (DTR5), of the following notifiable interests in its ordinary share capital:

Shareholder	Date of notification	Number of shares/ voting rights	% of voting rights	Number of shares/voting rights attaching to financial instruments	% of voting rights	Aggregate % of voting rights
ASGC Construction L.L.C.	29/05/2020	41,666,666	15.15	n/a	n/a	15.15
J O Hambro Capital Management Limited*	04/06/2020	27,773,508	10.10	2,291,447	0.83	10.93
Ennismore Fund Management Limited	07/09/2020	19,534,640	7.10	n/a	n/a	7.10
KBI Global Investors Ltd**	13/05/2020	7,528,503	6.70	n/a	n/a	6.70
Gresham House Asset Management Limited	23/09/2020	15,018,286	5.46	n/a	n/a	5.46
Artemis Investment Management LLP	02/06/2020	8,469,850	3.08	n/a	n/a	3.08

* Subsequent notification received from J O Hambro Capital Management Limited on 21 January 2021 that they had decreased their total interest in the Company to 27,250,190 shares representing 9.91% of voting rights with none attaching to financial instruments.

** Notification prior to the capital raising completed 29 May 2020 (i.e. when issued share capital was 108,283,074).

Save as noted above in respect of J O Hambro Capital Management Limited, the Company did not receive any further notifications pursuant to DTR5 in the period from 31 December 2020 to the date of this report (being a date not more than one month prior to the date of the Company's Notice of AGM).

Rights and obligations attaching to shares

In accordance with the articles of association, the Company can issue shares with any rights or restrictions attached to them provided such rights or restrictions do not restrict any rights or restrictions attached to existing shares. These rights or restrictions can be decided either by ordinary resolution passed by the shareholders or by the directors as long as there is no conflict with any resolution passed by the shareholders. Subject to the articles of association, the Companies Act 2006 and other shareholders' rights, the issue of shares is at the disposal of the Board.

Authority to issue shares

The directors may only issue shares if authorised to do so by the articles of association or the shareholders in general meeting. At the Company's AGM held on 19 June 2020, shareholders granted an authority to the directors to allot ordinary shares up to an aggregate nominal amount of £45.8m. As at 31 December 2020, no shares had been allotted in the Company.

As this authority is due to expire on 6 May 2021, shareholders will be asked to renew and extend the authority, given to the directors at the last AGM, to allot shares in the Company, or grant rights to subscribe for, or to convert any security into, shares in the Company for the purposes of Section 551 of the Companies Act 2006. Further details on the resolution are provided in the Notice of this year's AGM.

Disapplication of pre-emption rights

If the directors wish to allot new shares and other equity securities, or sell treasury shares, for cash (other than in connection with an employee share scheme) company law requires that these shares are offered first to shareholders in proportion to their existing holdings. There may be occasions, however, when the directors need the flexibility to finance business opportunities by the issue of shares without a pre-emptive offer to existing shareholders. This cannot be done under the Companies Act 2006 unless the shareholders have first waived their pre-emption rights.

At the forthcoming AGM, shareholders will be asked to pass two special resolutions to grant the directors powers to disapply shareholders' pre-emption rights under certain circumstances. Further details on the resolutions are provided in the Notice of this year's AGM.

Power in relation to the Company buying back its own shares

The directors may only buy back shares if authorised to do so by the articles of association or by a special resolution of the shareholders at a general meeting. Any shares which have been bought back may be held as treasury shares, and either be resold for cash, cancelled (either immediately or in the future), or used for the purposes of the Company's share schemes. Any cancelled treasury shares will thereby reduce the amount of the Company's issued share capital.

The Company did not buy back any of its shares during the year ended 31 December 2020 or during the period from 1 January 2021 to the date of this report.

At the forthcoming AGM authority will be sought from the shareholders to grant authority for the Company to repurchase up to 10% of the issued share capital of the Company. Further details on the resolution are provided in the Notice of this year's AGM.

Securities carrying special rights

No person holds securities in the Company carrying special rights with regard to control of the Company.

Restrictions on voting

No member shall be entitled to vote at any general meeting or class meeting in respect of any share held by him/her if any call or other sum then payable by him/her in respect of that share remains unpaid or if a member has been served with a restriction notice (as defined in the articles of association) after failure to provide the Company with information concerning interests in those shares required to be provided under the Companies Act 2006.

The Company is not aware of any agreement between holders of securities that may result in restrictions of voting rights.

Employee Share Trust

As at 31 December 2020, Buck Trustees (Guernsey) Limited, as trustee of the Costain Group Employee Trust, held 0.24% (2019: 0.64%) of the issued share capital of the Company on trust for the benefit of those employees who exercise their share awards/options under the Company's Long-Term Incentive Plan, Deferred Share Bonus Plan, Share Deferral Plan and Save As You Earn Scheme (the latter in respect of 'good leavers' who leave the employment of the Company before their contract matures). The trustee does not exercise any right to vote or to receive a dividend in respect of this shareholding.

Amendment of articles of association

Unless expressly specified to the contrary in the articles of association of the Company, the Company's articles of association may be amended by special resolution of the Company's shareholders. A copy of the articles of association is available on the Company's website at www.costain.com.

Political donations

No political donations were made during the year ended 31 December 2020 (2019: nil). The Company has a policy of not making donations to political organisations. As a precautionary measure, shareholder approval is being sought at the forthcoming AGM for the Company and its subsidiaries to make donations and/or incur expenditure which may be construed as 'political' by the wide definition of that term included in the relevant legislation. Further details on the resolution are provided in the Notice of this year's AGM.

Independent auditors

PricewaterhouseCoopers LLP (PwC) were reappointed as auditor of the Company at the 2020 AGM. The Board is proposing the reappointment of PwC as auditor from the conclusion of the AGM in May 2021 until the conclusion of the next general meeting at which the accounts are laid before the Company. See pages 77 and 78 of the Audit Committee Report and the Notice of this year's AGM, available on the Company's website at www.costain.com, for further details.

Financial instruments

Details of the Group's use of financial instruments, together with information on policies and exposure to price, liquidity, cash flow, credit, interest rate and currency risks, can be found in note 18 on pages 158 to 165. All information detailed in this note is incorporated into the Directors' Report by reference and is deemed to form part of the Directors' Report.

Significant agreements – change of control

The directors are not aware of any significant agreements to which the Company and/or any of its subsidiaries or associates are a party that take effect, alter or terminate upon a change of control of the Company following a takeover bid, save in respect of the facility agreements relating to the Company's banking and surety bonding facilities, which would become terminable upon a change of control. There are no agreements between the Company and its directors or employees providing for compensation for loss of office or employment as a result of a successful takeover bid except that provisions of the Company's share schemes and plans may cause options and awards to be granted to employees under such schemes and plans to vest on a takeover.

Post-balance sheet events

There are no post-balance sheet events.

Research and development

The Group is involved in research and development in all the sectors in which it operates. The Group's engineers and technical staff in these named sectors seek to develop and deliver technical advances. In undertaking certain elements of this research and development work, the Group is supported by arrangements with certain British universities and various technology specialists.

Greenhouse gas emissions

The Strategic Report on page 29 details the greenhouse gas emissions disclosures required by the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013. This information is incorporated by reference into (and shall be deemed to form part of) this report.

Information required by LR 9.8.4R

There is no information required to be disclosed under LR 9.8.4R.

Overseas interests

Details of the Company's overseas subsidiary undertakings can be found in note 24 on pages 173 to 178. The Company has two overseas branches in Abu Dhabi.

Directors

Biographies of the Board are given on pages 47 to 49 and include details of the skills, experience and career history of directors in post as at the date of this report, and the Committees on which they serve. Anthony Bickerstaff stepped down as chief financial officer and was succeeded by Helen Willis, both changes effective 30 November 2020. David McManus stepped down from the Board on 19 June 2020. Bishoy Azmy was appointed to the Board on the same date pursuant to the relationship agreement between the Company and ASGC described in the Company's prospectus dated 7 May 2020. Tony Quinlan was appointed to the Board with effect from 1 February 2021. The directors shall be not less than two and not more than 18 in number. The Company may by ordinary resolution vary the minimum and/or maximum number of directors.

Appointment and replacement of directors

The appointment and replacement of directors is governed by the Company's articles, the 2018 UK Corporate Governance Code, the Companies Act 2006 and related legislation. The articles may be amended by a special resolution of the Company's shareholders. Directors may be appointed by the Company by ordinary resolution or by the Board. At every AGM of the Company, all directors are required to retire from office and may offer themselves for reappointment by the members.

The Board, or any Committee authorised by the Board, may from time to time appoint one or more directors to hold any employment or executive office for such period and on such terms as they may determine and may also revoke or terminate any such appointment.

The Company may, by special resolution, remove any director before the expiration of his/her period of office. The office of a director shall also be vacated under a number of situations which are set out in the articles of the Company. These include a director wishing to resign, being required to step down due to ill health, becoming bankrupt or being prohibited by law from being a director.

The executive directors have contracts of employment with the Company, terminable on 12 months' notice, while the chair and non-executive directors all have letters of appointment with the Company. An independent non-executive director's appointment is for an initial period of three years, at the expiry of which time the appointment is reviewed to determine whether the appointment should continue. Bishoy Azmy's appointment does not have the same three-year review period, his appointment being subject to the relationship agreement between the Company and ASGC described in the Company's prospectus dated 7 May 2020. All contracts and letters of appointment are available for inspection at the Company's registered office during normal business hours.

Directors' conflicts of interest

The Company has procedures in place for managing conflicts of interest. Directors are required to declare all external appointments or relationships with other companies and the Board has adopted appropriate processes to manage and, if appropriate, approve any such appointment or relationship which could result in a possible conflict of interest. The Board has satisfied itself that there is no compromise to the independence of the directors who have appointments on the boards of, or relationships with, other companies.

Powers of the directors

Subject to the Company's articles of association, the Companies Act 2006 and any directions given to the Company by special resolution, the business of the Company will be managed by the Board, which may exercise all the powers of the Company. In particular, the Board may exercise all the powers of the Company to borrow money, to guarantee, to indemnify, to mortgage or charge any of its undertaking, property, assets (present and future) and uncalled capital and to issue debentures and other securities and to give security for any debt, liability or obligation of the Company or of any third party.

Directors' interests

No director had any material interest in any contract of significance with the Group during the period under review. Details of directors' emoluments and interests in shares (including their connected persons' beneficial interests) in the Company, including any changes in interests during 2020, are contained in the Directors' Remuneration Report, which appears on pages 82 to 105.

Directors' indemnity

Costain Group PLC maintains liability insurance for its directors and officers. There are no subsisting indemnities in favour of its directors.

Diversity

Details of the Company's policy on diversity within the business (including at Board level), is provided in the Nomination Committee Report on page 80 and the Governance Report on pages 60 and 61. Apart from ensuring that an individual has the ability to carry out a particular role, the Company does not discriminate in any way. The Company endeavours to retain employees if they become disabled, making reasonable adjustments to their role and, if necessary, looking for redeployment opportunities within the Group. The Company also ensures that training, career development and promotion opportunities are available to all employees irrespective of gender, race, age or disability.

Employee information

The average number of employees within the Company and Group is shown in note 6 to the financial statements on page 145.

The Company maintains a strong communication network and employees are encouraged to discuss with management matters of interest and issues affecting the day-to-day operations of the Group. Regular staff engagement surveys are run by the Company, the results of which are communicated to employees.

Employees are also kept informed of the financial and economic factors affecting the Company's performance, the strategy and other matters of concern to them as employees, through various means including regular updates from the chief executive officer and other senior managers and via the Company's intranet site. Employees also have the opportunity to provide feedback and ask questions at the annual staff 'Costain in Business' roadshows which normally take place around the country but in 2020 the roadshow was held virtually, as shown on page 54.

The Company also operates an all employee share plan (SAYE) enabling employees to become shareholders and build a stake in the future success of the Company. No grants were made under the SAYE in 2020.

Stakeholder Engagement

For more information on how the directors have engaged with the workforce, clients, suppliers and others, and how the directors have had regard to their interests, and the effect of that regard including on principal decisions, see the Stakeholder Engagement section of the Strategic Report on pages 26 and 27, and pages 66 and 67 of the Corporate Governance Report.

Essential contracts or other arrangements

Given the scope and diversity of the Company's activities, the Company does not consider that it has contractual or other arrangements which are essential to the business of the Group and which are required to be disclosed.

Disclosure of information to auditor

The directors confirm that, so far as they are aware, there is no relevant audit information (as defined in Section 418 of the Companies Act 2006) of which the Company's external auditor is unaware and that each director has taken all the steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish that the Company's external auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

By Order of the Board

Sharon Harris
Company Secretary
16 March 2021

Directors' Responsibility Statement

The directors are responsible for preparing the annual report, the Directors' Remuneration Report and the accounts in accordance with applicable law and regulations.

Company law requires the directors to prepare accounts for each financial year. Under that law, the directors are required to prepare the Group and Company accounts in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU).

Under Company law, the directors must not approve the financial statements unless they are satisfied that these give a true and fair view of the state of affairs of the Group and the Company and of their profit or loss for that period.

In preparing each of the Group and the Company accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently
- make judgements and accounting estimates that are reasonable and prudent
- state whether applicable IFRSs as adopted by the EU have been followed, subject to any material departures disclosed and explained in the accounts and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and the Company and enable them to ensure that the accounts and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the Group accounts, Article 4 of the IAS Regulation.

They are also responsible for safeguarding the assets of the Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement which comply with that law and those regulations. The directors are also responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The directors consider the annual report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's and the Group's position and performance, business model and strategy.

Each of the directors of the Company confirms that, to the best of his or her knowledge:

- the Group accounts, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profits or losses of the Company (and of the Group taken as a whole) and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Company (and of the Group taken as a whole), together with a description of the principal risks and uncertainties that they face.

On behalf of the Board

Dr Paul Golby CBE
Chair

Alex Vaughan
Chief Executive Officer
16 March 2021

Independent Auditors’ Report

to the members of Costain Group PLC

Report on the audit of the financial statements

Opinion

In our opinion, Costain Group PLC Group financial statements and parent company financial statements (the “financial statements”):

- give a true and fair view of the state of the Group’s and of the parent company’s affairs as at 31 December 2020 and of the Group’s loss and the Group’s and parent company’s cash flows for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Accounts (the “Annual Report”), which comprise: the Consolidated Statement of Financial Position and the Company Statement of Financial Position as at 31 December 2020; the Consolidated Income Statement and Consolidated Statement of Comprehensive Income and Expense, the Consolidated Cash Flow Statement and Company Cash Flow Statement, the Consolidated Statement of Changes in Equity and the Company Statement of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Separate opinion in relation to international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union

As explained in note 2 to the Group financial statements, the Group, in addition to applying international accounting standards in conformity with the requirements of the Companies Act 2006, has also applied international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

In our opinion, the Group financial statements have been properly prepared in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (“ISAs (UK)”) and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors’ responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC’s Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC’s Ethical Standard were not provided to the Group.

Other than those disclosed in the Directors’ Report, we have provided no non-audit services to the Group in the period under audit.

Our audit approach

Overview

Audit scope

- The Group is primarily UK based and has two main segments; Transportation and Natural Resources. We identified five legal entities requiring full scope audit, either due to their size or their risk characteristics.

Key audit matters

- Timing and accuracy of contract revenue and profit recognition including recoverability of amounts due from clients (Group)
- Impairment of goodwill and other intangible assets (Group and parent)
- Valuation of defined benefit pension scheme obligation (Group)
- Covid-19 (Group)

Materiality

- Overall Group materiality: £1,600,000 (2019: £1,700,000) based on 5% of the three year average profit before tax adjusted both for other items set out in note 2 and for the significant contract losses relating to A465 and Peterborough & Huntingdon projects, as these are deemed to be one off in nature.
- Overall parent company materiality: £1,440,000 (2019: £1,700,000) based on 1% of net assets (capped at 90% of Group materiality).
- Performance materiality: £1,200,000 (Group) and £1,080,000 (parent company).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Capability of the audit in detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined in the Auditors' responsibilities for the audit of the financial statements section, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the Group and industry, we identified that the principal risks of non-compliance with laws and regulations related to non-compliance with health and safety legislation, pension obligations, data protection legislation, anti-bribery and corruption legislation, environmental legislation, tax legislation and construction laws, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to increase revenue or reduce expenditure and management bias in accounting estimates. Audit procedures performed by the engagement team included:

- Discussion with management, internal audit and the Group's in-house legal advisers, including consideration of known or suspected instances of non-compliance with laws and regulations and fraud;
- Evaluation of management's controls designed to prevent and detect irregularities;
- Review of the financial statement disclosures to underlying supporting documentation;
- Assessment of matters reported on the Group's whistleblowing helpline and the results of management's investigation of such matters;
- Challenging assumptions and judgements made by management in their significant accounting estimates, in particular in relation to contract accounting and impairment of goodwill and intangible assets (see related key audit matters below); and
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations or posted by senior management.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

The key audit matters below are consistent with last year. In 2019, our opinion also included an 'emphasis of matter' relating to going concern and the uncertainty regarding the successful conclusion of the Group's equity raise.

Key audit matters continued

Key audit matter	How our audit addressed the key audit matter
Timing and accuracy of contract revenue and profit recognition including recoverability of amounts due from clients (Group) Refer to page 75 (Audit Committee Report), pages 128 to 138, note 2 (Summary of significant accounting policies and significant areas of judgement and estimation). The valuation of amounts recoverable on construction contracts is dependent on judgements and estimates around stage of completion and remaining costs to complete, as well as the associated provisions. In a number of the Group's projects there are assumptions within revenue regarding recovery of contractual entitlement from clients. These assumptions are required as a result of compensation events that have arisen due to changes under the terms of the contract. The valuation of these compensation events can involve a significant degree of estimation in the end of life forecast revenue for a project and the estimated final revenue may not yet have been certified or fully agreed with the customer. This can impact both on profit recognition in the year and work in progress recorded at the balance sheet date. The Group concluded a Termination and Settlement Agreement in respect of its contract with National Grid in relation to the Peterborough & Huntingdon gas compressor project during the year. The Group no longer holds a contract asset in respect of this project and, therefore, the position reflects the cash received at the point of termination. There is, however, an agreed process of adjudications through 2021 which will consider a list of defined compensation events, totalling a maximum of £80m. Under the terms of the Termination and Settlement Agreement the cumulative outcome of these adjudications will result in a final settlement with National Grid which could range from an additional receipt of £50m to a repayment to National Grid of £57.3m. Provisions are recorded by the Group where there are concerns over recoverability of receivables or contract assets or recognition of revenue does not meet the criteria under IFRS 15 of being highly probable of not being subject to significant reversal.	We obtained an understanding of and evaluated management's own process and controls for reviewing long term contracts and gained an understanding of the key judgements involved and background to the specific contracts selected in our sample. We selected a sample of contracts for our testing, based on both quantitative and qualitative criteria including: • high levels of revenue recognised in the year; • low margin or loss making contracts; • contracts with significant receivables or contract asset balances at the year end; and • those identified through our discussions with management, review of Board minutes, review of legal reports and review of publicly available information. The majority of the Group's contracts are target cost, cost reimbursable arrangements and some include pain/gain arrangements, therefore, we focused on the significant judgements adopted by management in relation to the revenue and margin recognition, and the percentage completion. For the sample of contracts selected our testing included: • obtaining an understanding of the contract and its key terms; • meeting with the project and commercial leaders to assess delivery progress and challenge key areas of estimation in end of life revenue and cost • agreeing forecast revenue to signed contracts, signed variations, agreed compensation events or other supporting documentation; • where applicable, we agreed the pain/gain mechanism to relevant contracts, recalculated the forecast impact on the outturn margin and challenged where there was estimation in end of life forecasts; • reconciling revenue recognised with amounts applied for and amounts certified by clients, agreeing the amounts received to cash and confirming, that the reconciling items were appropriate; • obtaining details of unagreed compensation events and challenging entitlement to assumed recoveries; • re-performing the key calculations behind the margin applied, the profit taken and the stage of completion, as well as contract assets held on the balance sheet; • testing a sample of actual costs incurred; • testing forecast costs to complete to evidence (such as orders signed with subcontractors or supporting calculations) and applying industry knowledge and experience to challenge the completeness of the forecast costs to completion including any cost contingencies held; • assessing the recoverability of contract assets and receivables by comparing to external certification of the value of work performed; • obtaining documentary evidence of proposed settlement agreements with clients; • reviewing legal correspondence and expert advice obtained in respect of the judgements and where necessary speaking directly with management's experts who had provided this advice; and • in addition in respect of the terminated Peterborough & Huntingdon contract with National Grid we obtained the Termination and Settlement Agreement and assessed the key terms therein. We obtained the reports of management's quantum and legal experts; met with those experts to understand and challenge their assessments and used our own capital projects specialists to support us in those meetings. For the remaining contract population we performed the following: • reviewed the forecast margins for the population of contracts. For those which had moved significantly since tender and / or the prior reporting period, we obtained explanations from management; • inspected Contract Leader Reports ('CLRs'); • considered appropriateness of management provisions against contract assets; • recalculated the percentage completion based on costs to date and recalculated revenue to agree to those reported by management; • for a sample of contracts which generated in excess of £1.2m of revenue in the year we agreed the December certificate to cash received, agreed reported cumulative costs to the underlying cost ledgers and recomputed the cumulative revenue recognised; and for all contract asset balances in excess of £1.2m at the year end we tested evidence of subsequent certification. Based on all of the evidence obtained in the above procedures, we were satisfied with the recognition of contract revenue and profit and of the amounts held as contract assets. Given the degree of estimation, we also considered the disclosures around significant ongoing contracts included in note 2 to the financial statements.

Key audit matter	How our audit addressed the key audit matter
Impairment of goodwill and other intangible assets (Group and parent) Refer to page 76 (Audit Committee Report), pages 128 to 138, note 2 (Significant areas of judgement and estimation), and page 149 note 12 – Intangible Assets. At 31 December 2020 the Group had a net balance of £45.1m of goodwill (2019: £54.1m) and £7.0m of other intangible assets (2019: £4.9m). The Company had a corresponding investment in subsidiaries balance of £151.2m (2019: £141.3m). Goodwill has been allocated to the applicable cash generating units of the Transportation segment £15.5m, (2019: £15.5m) and the Natural Resources segment £29.6m, (2019: £38.6m). The carrying values of goodwill and intangible assets, and of the Company's investments in subsidiaries, are contingent on future cash flows and there is a risk that the assets will be impaired if these cash flows do not meet the Group's expectations. The impairment reviews performed by the Group contained a number of judgements and estimates including discount rates, growth rates and expected changes to revenue and direct costs during the period. Changes in these assumptions could lead to an impairment to the carrying value of the assets. An impairment charge of £9.0m has been recorded against the Natural Resources goodwill balance in the Group. A £34.0m charge recorded within the parent's investment in subsidiaries balance for the year ended 31 December 2020.	We obtained the directors' future cash flow forecasts, which were prepared to a sufficiently detailed level. We evaluated management's basis of determination of the CGUs between Transportation and Natural Resources. We performed the following testing with a particular focus on the Natural Resources segment where the CGU's assumptions were more sensitive to an impairment: • we compared the cash flows to the latest Board approved budgets, tested the integrity of the underlying calculations and assessed how both internal and external drivers of performance were incorporated into the projections; • we challenged the discount rate, with the support of our valuations experts, by independently recalculating the cost of capital, which was consistent with the discount rate used; • we tested the revenue forecasts by comparing the revenue projected to the order book and supporting contract information, noting that 72% of the 2021 forecast revenue has been secured; • we assessed operating margin assumptions in the context of historic performance (including any impact resulting from Covid-19) for each CGU and the remaining work to be obtained; • we compared the 2020 financial performance to budget and understood the drivers of projected improvement in profitability and working capital movements; • we performed sensitivity analysis around the key drivers of the cash flow forecasts, in particular the revenue growth and margin assumptions; and • in respect of other intangibles we tested capitalisation of costs incurred and recoverability in accordance with IAS 38 and were satisfied that these were appropriate. We concluded management's assessment, after reflecting a £9.0 million impairment in Natural Resources CGU, is appropriate. Our findings were discussed with the Audit Committee and we concluded the impairment charge recognised was within an acceptable range.
Valuation of defined benefit pension scheme obligation (Group) Refer to page 76 (Audit Committee Report), pages 128 to 138 note 2 (Significant areas of judgement and estimation), and page 168 note 21 – Employment Benefits. The Group has significant retirement benefit obligations. At 31 December 2020 the present value of these obligations was £886.5 million (2019: £812.1m) offset by plan assets at fair value of £880.9m (2019: £817.0m) in respect of funded schemes. These retirement benefit obligations were determined based on a number of actuarial assumptions and calculations, which were subject to significant judgement and estimate. Changes in these assumptions can have a material impact on the quantum of obligations recorded in the Consolidated statement of financial position.	We obtained the actuarial valuation at 31 December 2020 and tested the valuation of the pension liabilities as follows: • we challenged with the support of our pension experts the actuarial assumptions by comparing them against benchmark ranges based on the market conditions and expectations at 31 December 2020. Based on our review of the assumptions, in each case we found that the actuarial assumptions used were reasonable and sat within our acceptable range and, where appropriate, were applied on a basis consistent with previous years; • we also reviewed the methodology and challenged the assumptions used in calculating the impact of the equalisation of Guaranteed Minimum Pensions which has been recognised in the Consolidated income statement this year; • we independently confirmed the pension assets held by the schemes with the third-party custodians and fund managers. We also performed an independent assessment, of the asset valuations with the support of valuations expert and concluded that they were appropriate; and • we tested the underlying census data to supporting documents to confirm completeness and accuracy. We did not identify any issues within our testing and were satisfied the assumptions applied are within an appropriate range.

Key audit matters continued

Key audit matter	How our audit addressed the key audit matter
Covid-19 and Going Concern (Group) Refer to page 76 (Audit Committee Report), pages 128 to 138, note 2 (Significant areas of judgement and estimation). The Covid-19 pandemic has had an impact on the performance of the Group during FY20, with the severity of the impact varying across the Group's two divisions. As a result, the pandemic has brought increased estimation uncertainty to certain areas of the financial statements. The key areas of the financial statements most impacted by the increased estimation uncertainty are described below: i) The Directors have carefully considered the appropriateness of the going concern basis of preparation in the Group's financial statements, including assessing the impact of further disruption arising from Covid-19 during the forecast period and potential impact on bank covenants; ii) Covid-19 has had an impact on the Group's ability to execute long term contracts, and it has incurred additional costs in doing so, particularly as a result of the requirements for personal protective equipment and on-site social distancing guidelines. To the extent that these incremental costs are considered to be part of the cost of delivering a contract, they are factored into the end of life forecast ('ELF') and not expensed to the Income Statement; iii) The Group has £45.1m of goodwill as at 31 December 2020. Given the impact of the pandemic on the Group's trading results to date, there is a risk that further disruption caused by Covid-19 could materially reduce the value in use of the Natural Resources CGU, against which £29.6m of the Group's goodwill is allocated; iv) Following the emergence of Covid-19 in the UK, the Group accessed HMRC's Coronavirus Job Retention Scheme ('CJRS'), and claimed £2.0m of compensation in respect of UK employee wages over the period from April to October 2020. This has been disclosed in note 5 in accordance with IAS 20, 'Accounting for government grants and disclosure of government assistance'. In addition, management's ways of working, including the operation of controls, has been impacted as a result of a large number of staff having to work remotely. This has resulted in an increase in risk due to the remote accessing of IT systems and a potentially heightened cyber risk.	In response to the key areas identified as being significantly impacted by Covid-19, we performed the following procedures: i) We reviewed management's cash flow forecasts, and assessed covenant compliance and the treatment of Covid-19 related costs, used to support the Board's going concern assessment, ensuring appropriate stress test scenarios were considered. We challenged management's key cash flow assumptions by performing our own sensitivity analysis. We concur with the Board's conclusion to adopt the going concern basis of preparation for the financial statements at 31 December 2020; ii) Refer to our Key Audit Matter above for details of how we considered the impact of Covid-19 in our procedures over contract accounting; iii) Refer to our Key Audit Matter above for details of how we considered the impact of Covid-19 in our procedures over impairment of goodwill; iv) We tested a sample of HMRC claims and associated cash receipts in respect of the CJRS income recorded. We did not identify any issues with the amounts recognised, which have been presented net against the payroll costs to which they relate. We undertake a substantive audit and, therefore, do not place reliance on controls. However, recognising the risk that the general control environment may have been impacted as a result of the pandemic we discussed with management and key individuals in the IT function to understand how the business had adapted; management did not identify any deterioration in the operation of key controls. We did not identify any significant control observations as a result of our substantive audit.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the parent company, the accounting processes and controls, and the industry in which they operate.

The Group is primarily UK based and has two main segments; Transportation and Natural Resources. In establishing the overall approach to the Group audit, we determined the type of work needed to be performed at these reporting units. We identified the following five legal entities requiring full scope audit; Costain Limited (financially significant component), Costain Oil and Gas Process Limited, Costain Engineering & Construction Limited, Richard Costain Limited and Costain Group PLC, which in our view, required an audit of their entire financial information, either due to their size or their risk characteristics. In addition to this we performed work over specific balances in other Group entities, which in our view, required an audit of such balances, either due to their size or their risk characteristics. In total, these accounted for 97% (2019: 97%) of Group revenues and 78% (2019: 80%) of Group Profit before tax. The percentage of Group Profit before tax is calculated on an absolute basis, which aggregates component profits and losses.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Financial statements – Group	Financial statements – parent company
Overall materiality	£1,600,000 (2019: £1,700,000).	£1,440,000 (2019: £1,700,000).
How we determined it	5% of a three year average of profit before tax adjusted for "other items" which are deemed to be one off or non trading in nature and for the losses relating to A465 and Peterborough & Huntingdon contracts.	1% of net assets (capped at 90% of Group materiality)
Rationale for benchmark applied	Based on the benchmark used in the Annual Report, profit before tax adjusted for "other items" and the significant contract losses is the primary measure used by the shareholders in assessing the performance of the Group, and is generally accepted auditing benchmark. We have also adopted a three year average to smooth out the impact of Covid-19 on the financial results in 2020.	The Company primarily holds intercompany receivables, investments in subsidiaries and debt. There are no trading activities in the company therefore we considered a balance sheet measure to be the most appropriate auditing benchmark.

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was £500,000 to £1,600,000.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% of overall materiality, amounting to £1,200,000 for the Group financial statements and £1,080,000 for the parent company financial statements.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £100,000 (Group audit) (2019: £100,000) and £100,000 (parent company audit) (2019: £100,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the group's and the parent company's ability to continue to adopt the going concern basis of accounting included:

- We obtained the latest bank facility agreement including covenant arrangements;
- We assessed the appropriateness of the cash flow forecasts in the context of the Group's 2020 financial position and evaluated the Directors' downside sensitivities against these forecasts;
- We evaluated the key assumptions in the forecasts and considered whether these appeared reasonable, for example by comparing forecast sales growth to levels of future revenue that has been secured;
- We examined the minimum committed facility headroom under the base case cash flow forecasts and sensitised cases and evaluated whether the Directors' conclusion that liquidity headroom remained in all events was reasonable;
- We obtained and reperformed the Group's most recent covenant compliance calculations under the previous agreement and subsequent quarterly forecast covenant compliance calculations under the revised facility agreement;
- We considered the impact of the Group's financial performance, and specifically its presentation of profit before exceptional items, a defined term in the banking agreement, and amortisation of acquired intangibles, on its covenant calculations; and
- We also reviewed the disclosures provided relating to the going concern basis of preparation, and found that these provided an explanation of the Directors' assessment that was consistent with the evidence we obtained.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and the parent company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Conclusions relating to going concern continued

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the Group's and the parent company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' Report for the year ended 31 December 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Group and parent company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the parent company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the parent company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit Committee, we were appointed by the members on 8 May 2017 to audit the financial statements for the year ended 31 December 2017 and subsequent financial periods. The period of total uninterrupted engagement is 4 years, covering the years ended 31 December 2017 to 31 December 2020.

Jonathan Hook (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors

London
16 March 2021

Consolidated Income Statement

Year ended 31 December

	Notes	2020 Before other items £m	2020 Other items £m	2020 Total £m	2019 Before other items £m	2019 Other items £m	2019 Total £m
Continuing operations							
Group revenue		**978.4**	**–**	**978.4**	1,155.6	–	1,155.6
Cost of sales before other items		**(1,027.0)**	**–**	**(1,027.0)**	(1,105.1)	–	(1,105.1)
Arbitration award on historical building project	5	**–**	**–**	**–**	–	(9.7)	(9.7)
Cost of sales		**(1,027.0)**	**–**	**(1,027.0)**	(1,105.1)	(9.7)	(1,114.8)
Gross (loss)/profit		**(48.6)**	**–**	**(48.6)**	50.5	(9.7)	40.8
Administrative expenses before other items		**(33.1)**	**–**	**(33.1)**	(32.6)	–	(32.6)
Impairment of Alcaidesa marina	13	**–**	**(0.6)**	**(0.6)**	–	(5.9)	(5.9)
Impairment of other investment	5	**–**	**(0.6)**	**(0.6)**	–	–	–
Profit on sales of interests in joint ventures and associates	26	**–**	**1.6**	**1.6**	–	–	–
Profit/(loss) on disposal of subsidiary undertakings	26	**–**	**1.4**	**1.4**	–	(3.0)	(3.0)
Refinancing advisory fees	5	**–**	**(1.2)**	**(1.2)**	–	–	–
Pension GMP equalisation charge	21	**–**	**(0.9)**	**(0.9)**	–	–	–
Amortisation of acquired intangible assets	12	**–**	**(1.0)**	**(1.0)**	–	(2.3)	(2.3)
Impairment of goodwill	12	**–**	**(9.0)**	**(9.0)**	–	–	–
Employment related and other deferred consideration	18	**–**	**–**	**–**	–	(0.2)	(0.2)
Administrative expenses		**(33.1)**	**(10.3)**	**(43.4)**	(32.6)	(11.4)	(44.0)
Group operating (loss)/profit		**(81.7)**	**(10.3)**	**(92.0)**	17.9	(21.1)	(3.2)
Share of results of joint ventures and associates	14	**0.2**	**–**	**0.2**	0.3	–	0.3
(Loss)/profit from operations	4	**(81.5)**	**(10.3)**	**(91.8)**	18.2	(21.1)	(2.9)
Finance income	8	**0.8**	**–**	**0.8**	1.0	–	1.0
Finance expense	8	**(5.1)**	**–**	**(5.1)**	(4.6)	(0.1)	(4.7)
Net finance expense		**(4.3)**	**–**	**(4.3)**	(3.6)	(0.1)	(3.7)
(Loss)/profit before tax	4/5	**(85.8)**	**(10.3)**	**(96.1)**	14.6	(21.2)	(6.6)
Taxation	9	**17.5**	**0.6**	**18.1**	(0.1)	3.8	3.7
(Loss)/profit for the year attributable to equity holders of the Parent		**(68.3)**	**(9.7)**	**(78.0)**	14.5	(17.4)	(2.9)
(Loss)/earnings per share							
Basic	10			**(36.7)p**			(2.3)p
Diluted	10			**(36.7)p**			(2.3)p

The impact of business disposals in either year was not material and, therefore, all results are classified as arising from continuing operations.

Consolidated Statement of Comprehensive Income and Expense

Year ended 31 December

	2020 £m	2019 £m
Loss for the year	**(78.0)**	(2.9)
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	**0.2**	(1.4)
Exchange differences on translation transferred to the income statement	**(1.2)**	(3.7)
Net investment hedge:		
Effective portion of changes in fair value during year	**0.1**	1.6
Net changes in fair value transferred to the income statement	**0.4**	2.0
Cash flow hedges:		
Effective portion of changes in fair value during year	**(0.3)**	(0.4)
Net changes in fair value transferred to the income statement	**0.5**	(0.8)
Total items that may be reclassified subsequently to profit or loss	**(0.3)**	(2.7)
Items that will not be reclassified to profit or loss:		
Remeasurement of retirement benefit (obligations)/asset	**(19.9)**	(7.0)
Tax recognised on remeasurement of retirement benefit (obligations)/asset	**3.8**	1.2
Total items that will not be reclassified to profit or loss	**(16.1)**	(5.8)
Other comprehensive expense for the year	**(16.4)**	(8.5)
Total comprehensive expense for the year attributable to equity holders of the parent	**(94.4)**	(11.4)

Consolidated Statement of Financial Position

As at 31 December

	Notes	2020 £m	2019 £m
Assets			
Non-current assets			
Intangible assets	12	**52.1**	59.0
Property, plant and equipment	13	**39.9**	44.1
Equity accounted investments	14	**0.4**	2.5
Retirement benefit asset	21	**–**	4.9
Trade and other receivables	16	**3.5**	2.1
Deferred tax	9	**23.6**	4.6
Total non-current assets		**119.5**	117.2
Current assets			
Inventories		**0.6**	1.3
Trade and other receivables	16	**218.7**	247.6
Taxation	9	**0.2**	5.5
Cash and cash equivalents	17	**150.9**	180.9
Total current assets		**370.4**	435.3
Total assets		**489.9**	552.5
Liabilities			
Non-current liabilities			
Retirement benefit obligations	21	**5.6**	–
Other payables	19	**1.1**	0.7
Interest-bearing loans and borrowings	17	**39.6**	48.0
Lease liabilities	13	**20.8**	17.2
Total non-current liabilities		**67.1**	65.9
Current liabilities			
Trade and other payables	19	**246.0**	247.4
Interest-bearing loans and borrowings	17	**7.2**	68.0
Lease liabilities	13	**12.5**	12.8
Provisions for other liabilities and charges	20	**0.6**	0.7
Total current liabilities		**266.3**	328.9
Total liabilities		**333.4**	394.8
Net assets		**156.5**	157.7
Equity			
Share capital	22	**137.5**	54.1
Share premium		**16.4**	16.4
Translation reserve		**0.6**	1.1
Hedging reserve		**(0.3)**	(0.5)
Retained earnings		**2.3**	86.6
Total equity		**156.5**	157.7

The financial statements were approved by the Board of directors on 16 March 2021 and were signed on its behalf by:

A Vaughan
Director

H Willis
Director

Registered number: 1393773

Company Statement of Financial Position

As at 31 December

	Notes	2020 £m	2019 £m
Assets			
Non-current assets			
Investments in subsidiaries	14	**151.2**	141.3
Deferred tax	9	**0.1**	–
Total non-current assets		**151.3**	141.3
Current assets			
Trade and other receivables	16	**134.9**	175.4
Cash and cash equivalents	17	**20.1**	0.1
Total current assets		**155.0**	175.5
Total assets		**306.3**	316.8
Liabilities			
Non-current liabilities			
Interest-bearing loans and borrowings	17	**39.6**	48.0
Provisions for other liabilities and charges	20	**0.7**	0.8
Total non-current liabilities		**40.3**	48.8
Current liabilities			
Trade and other payables	19	**28.0**	27.6
Taxation	9	**1.5**	1.5
Interest-bearing loans and borrowings	17	**7.2**	68.0
Provisions for other liabilities and charges	20	**0.1**	0.1
Total current liabilities		**36.8**	97.2
Total liabilities		**77.1**	146.0
Net assets		**229.2**	170.8
Equity			
Share capital	22	**137.5**	54.1
Share premium		**16.4**	16.4
Other reserves		**–**	25.9
Hedging reserve		**(0.3)**	(0.2)
Retained earnings		**75.6**	74.6
Total equity		**229.2**	170.8

The loss for the year was £35.0m (2019: profit of £3.3m).

The financial statements were approved by the Board of directors on 16 March 2021 and were signed on its behalf by:

A Vaughan
Director

H Willis
Director

Registered number: 1393773

Consolidated Statement of Changes in Equity

Year ended 31 December

	Share capital £m	Share premium £m	Translation reserve £m	Hedging reserve £m	Merger reserve £m	Retained earnings £m	Total equity £m
At 1 January 2019	53.5	15.0	2.6	0.7	–	110.5	182.3
Loss for the year	–	–	–	–	–	(2.9)	(2.9)
Other comprehensive expense	–	–	(1.5)	(1.2)	–	(5.8)	(8.5)
Issue of ordinary shares under employee share option plans	0.3	0.4	–	–	–	(0.2)	0.5
Shares purchased to satisfy employee share schemes	–	–	–	–	–	(0.7)	(0.7)
Equity-settled share-based payments	–	–	–	–	–	0.5	0.5
Dividends paid	0.3	1.0	–	–	–	(14.8)	(13.5)
At 31 December 2019	54.1	16.4	1.1	(0.5)	–	86.6	157.7
At 1 January 2020	**54.1**	**16.4**	**1.1**	**(0.5)**	**–**	**86.6**	**157.7**
Loss for the year	**–**	**–**	**–**	**–**	**–**	**(78.0)**	**(78.0)**
Other comprehensive (expense)/income	**–**	**–**	**(0.5)**	**0.2**	**–**	**(16.1)**	**(16.4)**
Shares purchased to satisfy employee share schemes	**–**	**–**	**–**	**–**	**–**	**(0.2)**	**(0.2)**
Equity-settled share-based payments	**–**	**–**	**–**	**–**	**–**	**0.9**	**0.9**
Capital raise (note 22)	**83.4**	**–**	**–**	**–**	**9.1**	**–**	**92.5**
Transfer	**–**	**–**	**–**	**–**	**(9.1)**	**9.1**	**–**
At 31 December 2020	**137.5**	**16.4**	**0.6**	**(0.3)**	**–**	**2.3**	**156.5**

Details of the nature of the above reserves are set out below.

Translation reserve

The translation reserve comprises all foreign exchange differences arising after 1 January 2004, the date of adoption of IFRS, from the translation of the financial statements of foreign operations that are not integral to the operations of the Company, as well as from the translation of liabilities that hedge the Group's net investment in foreign subsidiaries, including prior to selling the remaining Spanish operation, fair value movements on investment hedges.

Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

Merger reserve

The capital raise was effected through a structure, which resulted in a merger reserve arising under Section 612 of the Companies Act 2006. Following the receipt of the cash proceeds through the structure, the excess of the net proceeds over the nominal value of the share capital issued has been transferred to retained earnings.

Company Statement of Changes in Equity

Year ended 31 December

	Share capital £m	Share premium £m	Other reserve £m	Hedging reserve £m	Merger reserve £m	Retained earnings £m	Total equity £m
At 1 January 2019	53.5	15.0	25.1	0.2	–	86.3	180.1
Total comprehensive (expense)/income	–	–	–	(0.4)	–	3.3	2.9
Issue of ordinary shares under employee share option plans	0.3	0.4	–	–	–	(0.2)	0.5
Equity-settled share-based payments granted to employees of subsidiaries	–	–	0.8	–	–	–	0.8
Dividends paid	0.3	1.0	–	–	–	(14.8)	(13.5)
At 31 December 2019	54.1	16.4	25.9	(0.2)	–	74.6	170.8
At 1 January 2020	**54.1**	**16.4**	**25.9**	**(0.2)**	**–**	**74.6**	**170.8**
Total comprehensive expense	**–**	**–**	**–**	**(0.1)**	**–**	**(35.0)**	**(35.1)**
Equity-settled share-based payments granted to employees of subsidiaries	**–**	**–**	**1.0**	**–**	**–**	**–**	**1.0**
Capital raise (note 22)	**83.4**	**–**	**–**	**–**	**9.1**	**–**	**92.5**
Transfer	**–**	**–**	**(26.9)**	**–**	**(9.1)**	**36.0**	**–**
At 31 December 2020	**137.5**	**16.4**	**–**	**(0.3)**	**–**	**75.6**	**229.2**

Details of the nature of the above reserves are set out below.

Other reserve

The Company grants certain of its subsidiaries rights to its equity instruments as part of its share-based payment plan incentive schemes. The impact is recognised within this non-distributable reserve, which has now been reclassified within retained earnings.

Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

Merger reserve

The capital raise was effected through a structure, which resulted in a merger reserve arising under Section 612 of the Companies Act 2006. Following the receipt of the cash proceeds through the structure, the excess of the net proceeds over the nominal value of the share capital issued has been transferred to retained earnings.

Consolidated Cash Flow Statement

Year ended 31 December

	Notes	2020 £m	2019 £m
Cash flows from/(used by) operating activities			
Loss for the year		**(78.0)**	(2.9)
Adjustments for:			
Share of results of joint ventures and associates	14	**(0.2)**	(0.3)
Finance income	8	**(0.8)**	(1.0)
Finance expense	8	**5.1**	4.7
Taxation	9	**(18.1)**	(3.7)
Impairment of Alcaidesa marina	13	**0.6**	5.9
Impairment of other investment	5	**0.6**	–
Profit on sales of interests in joint ventures and associates	5	**(1.6)**	–
(Profit)/loss on disposal of subsidiary undertakings	26	**(1.4)**	3.0
Pension GMP equalisation charge	21	**0.9**	–
Depreciation of property, plant and equipment	5	**15.0**	17.7
Amortisation and impairment of intangible assets	5	**10.5**	2.6
Employment related and other deferred consideration		**–**	0.2
Shares purchased to satisfy employee share schemes		**(0.2)**	(0.7)
Share-based payments expense	6	**0.9**	0.5
Cash (used by)/from operations before changes in working capital and provisions		**(66.7)**	26.0
Decrease in inventories		**0.7**	0.1
Decrease in receivables		**25.5**	30.2
Decrease in payables		**(0.1)**	(63.5)
Movement in provisions and employee benefits		**(10.4)**	(16.3)
Cash used by operations		**(51.0)**	(23.5)
Interest received		**0.8**	1.0
Interest paid		**(5.1)**	(4.6)
Taxation received/(paid)		**8.3**	(5.1)
Net cash used by operating activities		**(47.0)**	(32.2)
Cash flows from/(used by) investing activities			
Dividends received from joint ventures and associates	14	**0.2**	0.2
Additions to property, plant and equipment	13	**(0.5)**	(3.8)
Additions to intangible assets	12	**(3.6)**	(3.1)
Proceeds of disposals of property, plant and equipment and intangible assets		**0.3**	0.3
Repayment of loans by joint ventures and associates	14	**–**	0.1
Proceeds of sales of interests in joint ventures and associates	26	**3.7**	–
Acquisition related deferred consideration	18	**–**	(1.5)
Proceeds of sales of subsidiary undertakings	26	**4.6**	11.8
Net cash from investing activities		**4.7**	4.0
Cash flows from/(used by) financing activities			
Issue of ordinary share capital	22	**92.5**	0.5
Ordinary dividends paid	11	**–**	(13.5)
Repayments of lease liabilities		**(12.1)**	(13.6)
Drawdown of loans	17	**71.5**	70.0
Repayment of loans	17	**(139.0)**	(23.6)
Net cash from financing activities		**12.9**	19.8
Net decrease in cash and cash equivalents		**(29.4)**	(8.4)
Cash and cash equivalents at beginning of the year	17	**180.9**	189.3
Effect of foreign exchange rate changes		**(0.6)**	–
Cash and cash equivalents at end of the year	17	**150.9**	180.9

Company Cash Flow Statement

Year ended 31 December

	Notes	2020 £m	2019 £m
Cash flows from/(used by) operating activities			
(Loss)/profit for the year		**(35.0)**	3.3
Adjustments for:			
Finance income		**(2.2)**	(5.7)
Finance expense		**4.1**	3.3
Impairment in investments	14	**34.0**	–
Cash from operations before changes in working capital and provisions		**0.9**	0.9
Decrease/(increase) in receivables		**38.2**	(37.2)
Decrease in payables		**0.3**	0.6
Movement in provisions		**(0.1)**	(0.1)
Cash from/(used by) operations		**39.3**	(35.8)
Interest received		**2.2**	2.2
Interest paid		**(4.1)**	(3.3)
Taxation received		**–**	0.3
Net cash from/(used by) operating activities		**37.4**	(36.6)
Cash flows from/(used by) investing activities			
Investment in subsidiaries	14	**(42.9)**	–
Dividends received		**1.0**	3.5
Net cash (used by)/from investing activities		**(41.9)**	3.5
Cash flows from/(used by) financing activities			
Issue of ordinary share capital	22	**92.5**	0.5
Ordinary dividends paid	11	**–**	(13.5)
Drawdown of loans	17	**71.0**	70.0
Repayment of loans	17	**(139.0)**	(23.8)
Net cash from financing activities		**24.5**	33.2
Net movement in cash and cash equivalents		**20.0**	0.1
Cash and cash equivalents at beginning of the year	17	**0.1**	–
Cash and cash equivalents at end of the year	17	**20.1**	0.1

Notes to the Financial Statements

1 General information

Costain Group PLC ('the Company') is a public limited company domiciled in England and incorporated in England and Wales. The address of its registered office and principal place of business is disclosed on page 183 of this annual report. The principal activities of the Company and its subsidiary undertakings (collectively referred to as 'the Group') are described in the Strategic Report.

The consolidated financial statements of the Company for the year ended 31 December 2020 comprise the Group and the Group's interests in associates, joint ventures and joint operations. The Parent Company financial statements present information about the Company as a separate entity and not about its Group.

The financial statements were authorised for issue by the directors on 16 March 2021.

2 Summary of significant accounting policies

Basis of preparation

Both the Company financial statements and the Group consolidated financial statements have been prepared and approved by the directors in accordance with both international accounting standards in conformity with the requirements of the Companies Act 2006 and international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union. On publishing the parent Company financial statements here together with the Group financial statements, the Company is taking advantage of the exemption in Section 408 of the Companies Act 2006 not to present its individual income statement and related notes that form a part of these approved financial statements.

These financial statements are presented in pounds sterling, rounded to the nearest hundred thousand. The financial statements are prepared on the historical cost basis, except that financial assets and derivative financial instruments are stated at their fair value.

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of these form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. Judgements made by management in the application of IFRS that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed later in this note.

Going concern

The Group's business activities and the factors likely to affect its future development, performance and position are set out in the Strategic Report. The financial position of the Group, its cash flows, liquidity position, borrowing and bonding facilities, use of financial instruments and hedging activities, exposure to credit risk and its objectives, policies and processes for managing its capital and financial risk are described in the chief financial officer's review section of these financial statements and in note 18.

The Group's principal business activity involves work on the UK's infrastructure, mostly delivering long-term contracts with a number of customers. To meet its day-to-day working capital requirements, it uses cash balances provided from shareholders' capital and retained earnings and its borrowing facilities. As part of its contracting operations, the Group may be required to provide performance and other bonds. It satisfies these requirements by utilising its bonding facilities from banks and surety companies. The facilities have financial covenants that are tested quarterly.

In determining the appropriate basis of preparation of the financial statements for the year ended 31 December 2020, the Directors are required to consider whether the Group can continue in operational existence for the foreseeable future. Having undertaken a rigorous assessment of the financial forecasts, the Board considers that the Group and the Company have adequate resources to remain in operation for the foreseeable future and, therefore, have adopted the going concern basis for the preparation of the financial statements.

In assessing the going concern assumptions, the Board has reviewed the base case plans. They have assessed the ongoing impact on the Group's trading arising from the UK's departure from the EU, which is not anticipated to be significant in the context of the Group's operations. Our projects have been operational through the majority of the COVID-19 lock down period and this is expected to continue. The Board has identified severe but plausible downsides and after applying these downside scenarios, the Board concluded that there is liquidity headroom in a reasonable worst case scenario, headroom on the committed facilities and that headroom on the associated financial covenants is adequate.

Accounting policies

The accounting policies set out below have been applied consistently by the Group and the Company to each period presented in these financial statements, except for the adoption of the new accounting standards noted below.

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2020:

- Definition of Material – amendments to IAS 1 and IAS 8
- Definition of a Business – amendments to IFRS 3
- Interest Rate Benchmark Reform – amendments to IFRS 9, IAS 39 and IFRS 7
- Revised Conceptual Framework for Financial Reporting.

The Group also elected to adopt the following amendments early:

- Annual Improvements to IFRS Standards 2018–2020 Cycle.

The amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2020 reporting periods and have not been early adopted by the Group. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

2 Summary of significant accounting policies continued

Accounting policies continued

Basis of consolidation

(a) The Group's financial statements include the financial statements of the Company and its subsidiaries. Subsidiaries are entities controlled by the Group and control exists when the Group is exposed to, or has the rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control starts until the date that control ceases.

(b) Associates are operations over which power exists to exercise significant influence but not control, generally accompanied by a share of between 20% and 50% of the voting rights. Associates are accounted for using the equity method.

(c) Joint ventures are those joint arrangements where control is shared with another entity, and where the Group has rights to the net assets of the arrangement. Joint ventures are accounted for using the equity method from the date that the joint venture starts until the date that joint control of the entity ceases.

(d) The presentation of investments in associates and joint ventures in the statement of financial position restricts the minimum carrying value to £nil. Where the cost of investment would be negative, due to losses incurred, then an amount up to the value of the negative position is applied to any outstanding loan balance with the investment or, where future funding commitments exist, a provision is made up to the value of the commitment.

(e) Joint operations are those joint arrangements over which joint control exists, established by contractual agreement, which are not legal entities and where the parties have rights to the assets and obligations for the liabilities relating to the arrangement. Where a joint operation exists, then the Group entity involved records the assets it controls, the liabilities and expenses it incurs and its share of income. Such joint operations are reported in the consolidated financial statements on the same basis. Transactions between Group companies and joint operations eliminate on consolidation.

(f) Intra-Group balances and transactions together with any unrealised gains arising from intra-Group transactions are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates, joint ventures and joint operations are eliminated to the extent of the interest in the entity or operation. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Currency translation

Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to pounds sterling at the exchange rate ruling at the statement of financial position date. Foreign exchange differences arising on translation are recognised in the income statement.

The assets and liabilities of foreign operations are translated to pounds sterling at exchange rates ruling at the statement of financial position date. The revenues and expenses of foreign operations are translated to pounds sterling at rates approximating to the exchange rates ruling at the dates of these transactions.

Exchange differences arising from the translation of the net investment in foreign operations and of related hedges, to the extent that the hedge is effective, are recognised directly in equity. Those exchange differences that have arisen since 1 January 2004, the date of transition to IFRS, are presented as a separate component of equity. Cumulative exchange differences are released into the income statement upon disposal. Translation differences that arose before the date of transition to IFRS in respect of all foreign operations are not presented as a separate component.

Revenue from contracts with customers

The Group recognises revenue when control over the service or product is transferred to the customer and revenue is measured at the fair value of the consideration received or receivable, net of value added tax. Where the consideration is variable, the amount recognised is highly probable not to suffer a significant reversal in future.

The principal source of revenue relates to work on the UK's infrastructure across transportation, water and energy. Over 90% arises under long-term contracts, which require delivery of a specified item to the customer, increasingly involve a technology element, with a large element of the works undertaken on the customer's land and perhaps taking a number of years to complete. The majority are structured in a cost reimbursement or target cost form, typically with incentive and penalty arrangements. Generally, the works specified within the contract are integrated and the customer procures the one complete package, which may incorporate design, engineering and advisory work into the scope. Where a contract comprises distinct performance obligations, each is accounted separately. The scope of the works will be often subject to change and in the majority of contracts, the terms specify that changes are handled through compensation events. These are considered on a case by case basis to determine whether they are a new separate performance obligation and accounted as such, or part of the original works and dealt with on a cumulative catch-up basis. On the majority of contracts, the compensation events relate to clarifications or revisions of the original works. Other design, advisory and consulting contracts requiring production of a specified scope or provision of other services, some of which may lead to the construction of the designed product, can be structured as inter-dependant or standalone contracts and the resulting performance obligations depends on how the customer procures the contract.

Group revenue includes the Group's share of revenue of joint operations.

(a) Long-term contracts

Revenue arises from the increase in the value of work performed and the value of services provided during the year. Where the outcome of an individual long-term contract can be estimated reliably and it is probable that the contract will be profitable, revenue and costs are recognised by reference to the stage of completion of the contract activity at the statement of financial position date. Stage of completion is assessed by reference to the proportion of contract costs incurred for the work performed to date relative to the estimated total costs. Contract costs are recognised as expenses in the period in which they are incurred.

Compensation events, variations and claims, gain from pain/gain arrangements and other bonus assessments are included in revenue where it is highly probable that the amount, which can be measured reliably, will be recovered from the customer and will not reverse. Pain from pain/gain arrangements is included where incurred or expected to be incurred. Revenue in respect of these items is determined on the most likely outcome method. When the outcome of a long-term contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred, where it is highly probable those costs will be recoverable and will not reverse. When it is probable that total contract costs will exceed total revenue, the expected loss is recognised as an expense immediately.

Contract work in progress is stated at cost plus profit recognised to date, including compensation events not yet agreed but considered highly probable, less a provision for foreseeable losses and less amounts billed and is included in contract assets. Amounts valued and billed to customers are included in trade receivables. Where cash received from customers exceeds the value of work performed, the amount is included in contract liabilities.

(b) Other revenue

Revenue from other services contracts is recognised when the service is provided and revenue from the sale of land is recognised when title has been transferred to the buyer. The revenue recognised is the amount that can be measured reliably and is highly probable to flow to the Group and not reverse. Rental income is recognised in the income statement on a straight-line basis over the term of the lease. Insurance claims are recognised when they are considered virtually certain.

2 Summary of significant accounting policies continued

Income statement presentation – Other items

In order to aid understanding of the underlying and overall performance of the Group, certain amounts are shown in the consolidated income statement in a separate column headed 'Other items'. Items are included under this heading where the Board considers them to be of a one-off and unusual nature or related to the accounting treatment of acquisitions. These results present underlying profit, which is a Non-GAAP measure. Other items includes:

- amortisation of acquired intangibles (note 12), employment related deferred consideration (note 18), impairment charges on the Alcaidesa marina (note 13) and profits and losses on sales of residual businesses (note 26), and,
- in 2020, the goodwill impairment (note 12), the pension GMP equalisation charge (note 21), finance advisory costs associated with the capital raise and the bank facilities, the impairment of a minor stake in a hotel company investment (note 16) and the profit on sale of the Group's remaining interests in 'Building Schools for the Future' partnership companies (note 26).
- in 2019, the one-off exceptional costs of an arbitration award in respect of the remedial works deemed required to the roof in relation to a building contract completed in 2006 (note 5).

The tax impact of the above is shown on the taxation line below the other items.

The Group also has non-GAAP adjusted profit and earnings per share measures, which exclude both other items and the three significant contract adjustments, and an adjusted revenue measure, that excludes the revenue element of the three contract adjustments (note 3).

All these items are adjusted because they are not long term in nature and, hence, will not reflect the long-term performance of the Group.

Pre-contract costs

Costs associated with bidding for contracts are written off as incurred.

Research and development

Research and development activities are usually directly attributable to a project and accounted within project costs. In line with common practice, the Group has adopted the research and development expenditure credit (RDEC) regime as these credits have characteristics similar to government grants. Development expenditure that satisfies all the relevant conditions is capitalised as an intangible asset (see below).

Goodwill and other intangible assets

Goodwill arising on acquisitions represents the excess of the fair value of the consideration over the identifiable assets, liabilities and contingent liabilities of the acquired entity and goodwill arising on the acquisition of subsidiaries is included in non-current assets. The attributable costs of acquisitions are expensed to the income statement.

Goodwill is reviewed annually for impairment and is carried at cost less accumulated impairment losses. Goodwill is included when determining the profit or loss on subsequent disposal of the business to which it relates.

Other intangible assets comprise acquired intangible assets (customer relationships, order book, brand and intellectual property), computer software, development expenditure and patents. Customer relationships and other acquired intangibles are measured at the present value of cash flows attributable to the relationship less an appropriate contributory asset charge. Computer software, development expenditure and patents are carried at cost. Once the asset is complete, subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates, otherwise expenditure is expensed as incurred.

Internally generated development expenditure is recognised as an intangible asset only if all of the following conditions are satisfied:

- the asset can be identified
- it is probable that the asset will create future economic benefits
- the development costs can be measured reliably.

Amortisation begins when an asset is acquired or, in the case of computer software and other development assets, available for use and is amortised over the following periods:

Brands	– on a straight-line basis up to three years
Order book	– in line with expected profit generation up to three years
Customer relationships	– on a straight-line basis up to seven years
Other intangibles	– on a straight-line basis up to five years

Property, plant and equipment

Property, plant and equipment is carried at cost less accumulated depreciation and impairment losses. Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items. Cost comprises purchase price and directly attributable costs. Freehold land is not depreciated. For all other property, plant and equipment, depreciation is calculated on a straight-line basis to allocate cost less residual values of the assets over their estimated useful lives as follows:

Freehold buildings	– 50 years
Leasehold buildings	– shorter of 50 years or lease term
Marina (Alcaidesa)	– concession period (17.4 years remaining up to date of disposal)
Plant and equipment	– remaining useful life (generally 3 to 10 years)

The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at each statement of financial position date.

Investments – Company

Company investments in subsidiaries are carried at cost less provisions for impairment.

Impairment of non-financial assets

For the purposes of impairment testing, goodwill is allocated to the cash generating units expected to benefit from the synergies of the combination. Cash generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit.

The carrying amounts of other assets, except inventories and deferred tax assets, are reviewed at each statement of financial position date to determine whether there is any indication of impairment. If any such indication exists, the assets recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset, or its cash generating unit, is less than the recoverable amount. Impairment losses are recognised in the income statement.

An impairment loss (other than in relation to goodwill) is reversed if there has been a change in the estimates resulting in the recoverable amount rising above the impaired carrying value of the asset. An impairment loss is reversed only to the extent that the carrying amount of the assets does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Provisions

A provision is recognised in the statement of financial position when there is a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for onerous contracts is recognised when the expected benefits to be derived from a contract are lower than the unavoidable cost of meeting the obligations under the contract.

2 Summary of significant accounting policies continued

Taxation

The tax expense represents the sum of UK corporation tax and overseas tax currently payable and deferred tax.

The tax currently payable is based on the taxable profit for the year. Taxable profit differs from profit before tax as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it excludes items that are never taxable or deductible. The liability for current tax is calculated using tax rates and laws that have been enacted or substantively enacted by the statement of financial position date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the statement of financial position liability method. Deferred tax liabilities are generally recognised for all temporary differences except for those specific exemptions set out below and deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised. The carrying amount of deferred tax assets is reviewed at each statement of financial position date.

Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or other assets and liabilities, other than in a business combination, in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for temporary differences arising on investments in subsidiaries and interests in joint arrangements, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is calculated at the tax rates based on those enacted or substantially enacted at the statement of financial position date. Deferred tax is charged or credited in the income statement except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Additional taxes arising from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

Leases

Where the Group is party to a lease, except for short-term leases or leases of low value assets (as noted below), the Group recognises a right-of-use asset and a lease liability upon lease commencement.

The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the start date, any initial direct costs incurred and an estimate of costs to dismantle and remove or to restore the underlying asset or the site on which is located, less any lease incentives received.

The asset is subsequently depreciated using the straight-line method from the start date to the earlier of the end of the useful life of the asset or the end of lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property, plant and equipment. In addition, the right-of-use asset is reduced by any impairment losses and adjusted for certain remeasurements of the lease liability associated with changes to the lease term.

The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the incremental borrowing rate.

The amount charged to the income statement comprises the depreciation of the right-of-use asset and the imputed interest on the lease liability.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in the income statement. Short-term leases are leases with a lease term of 12 months or less.

Financial guarantee contracts

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within the Group, the Company considers these to be insurance arrangements and accounts for them as such. In this respect, the guarantee contract is treated as a contingent liability until such time as it becomes probable that a payment under the guarantee will be required.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Dividends

Dividends are recognised as distributions in the period in which they are declared. Dividends proposed but not declared are not recognised but are disclosed in note 10 to the financial statements.

Share-based payments

These comprise equity-settled share-based compensation plans.

Equity-settled share-based payments are measured at fair value at the date of grant and the fair value is expensed over the vesting period, based on the estimate of awards that will eventually vest. Fair value is measured using a Black-Scholes option pricing model.

Where options are granted over shares in the Company to employees of subsidiaries, the Company recognises in its financial statements an increase in the cost of investment in its subsidiaries equivalent to the equity-settled share-based payment charge recognised in its subsidiaries' financial statements, with the corresponding credit being recognised directly in equity.

Retirement benefit obligations

A defined benefit pension scheme is operated in the UK, which provides benefits based on pensionable salary. The details are included in note 21. The assets of the scheme are held separately from those of the Group.

Pension scheme assets are measured using market values. Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high-quality corporate bond of equivalent term and currency to the liability. The liability or asset recognised in the statement of financial position in respect of the defined benefit pension scheme is the difference between the present value of the defined benefit obligations and the fair value of scheme assets at the statement of financial position date.

Administration costs of the scheme are recognised in the income statement and a charge to reflect the impact of GMP equalisation is included in other items in the income statement in 2020. The interest income or cost on the scheme's net asset or liabilities is included in finance expense. Remeasurements of the net asset or liability are recognised in the consolidated statement of comprehensive income.

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred.

Financial assets and liabilities

Financial assets and financial liabilities are recognised in the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

(a) Financial assets

The classification depends on the nature and purpose of the financial asset and is determined at the time of initial recognition.

A financial asset is derecognised only when the contractual rights to the cash flows from that asset expire, or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

Trade and other receivables

Trade and other receivables do not carry interest and are stated at their initial value less impairment losses. Trade receivables mostly relate to long-term contracts.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits.

2 Summary of significant accounting policies continued

Financial assets and liabilities continued

Impairment of financial assets

Impairment of financial assets is based on an expected credit loss model applying the simplified approach permitted under IFRS 9. The Group calculates an allowance for credit losses based on the nature of the customer, experience of collecting receivables from similar customers and modelling default scenarios and applying probabilities of such scenarios.

(b) Financial liabilities

Financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

Financial liabilities are derecognised only when the obligations are discharged, cancelled or expire.

Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(c) Derivative financial instruments

Derivative financial instruments are used to manage risks arising from changes in foreign exchange rates and interest rates and are measured at their fair value as explained in the cash flow hedges section of note 18.

Certain derivative financial instruments are designated as cash flow hedges in line with established risk management policies. These hedge exposure to variability in cash flows that is attributable to either a particular risk associated with a recognised asset or liability or a forecast transaction. The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in equity, with any ineffective portion in the income statement. When hedged cash flows result in the recognition of a non-financial asset or liability, the associated gains or losses previously recognised in equity are included in the initial measurement of the asset or liability. For all other cash flow hedges, the gains or losses that are recognised in equity are transferred to the income statement in the same period in which the hedged cash flow affects the income statement.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss previously recognised in equity is retained in equity until the hedged transaction occurs. If the hedged transaction is no longer expected to occur, the net cumulative gain or loss is transferred to the income statement.

Any gains or losses arising from changes in fair value of derivative financial instruments not designated as hedges are recognised in the income statement.

Fair value measurement

When measuring the fair value of a financial or non-financial asset or liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets and liabilities.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the hierarchy as the lowest level input that is significant to the entire measurement.

Significant areas of judgement and estimation

The estimates and underlying assumptions used in the preparation of these financial statements are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The most critical accounting policies and significant areas of estimation and judgement arise from the accounting for long-term contracts under IFRS 15 'Revenue from Contracts with Customers', the carrying value of goodwill and acquired intangible assets, the assumptions used in the accounting for defined benefit pension schemes under IAS 19 'Employee benefits', the recognition of deferred tax assets in relation to tax losses and the items classified as other items and contract adjustments.

Long-term contracts

The majority of the Group's activities are undertaken via long-term contracts and IFRS 15 requires the identification and separation of individual, distinct performance obligations, which are then accounted individually. The most common type of contracts undertaken by the Group with multiple performance obligations are framework contracts. In most cases, the obligations are satisfied over time and estimates are made of the total contract costs and revenues. In many cases, these obligations span more than one financial period. Both cost and revenue forecasts may be affected by a number of uncertainties that depend on the outcome of future events and may need to be revised as events unfold and uncertainties are resolved. Cost forecasts take into account the expectations of work to be undertaken on the contract. Revenue forecasts take into account compensation events, variations and claims and assessments of the impact of pain/gain arrangements to the extent that the amounts the Group expects to recover or incur can be reliably estimated and are highly probable not to reverse based on most likely outcome.

Management bases its estimates of costs and revenues and its assessment of the expected outcome of each long-term contractual obligation on the latest available information, this includes detailed contract valuations, progress on discussions over compensation events, variations and claims with customers, progress against the latest programme for completing the works, forecasts of the costs to complete and, in certain limited cases, assessments of recoveries from insurers where virtually certain. Revenue is recognised to the extent that amounts forecast from compensation events, variations and claims are agreed or considered in management's judgement highly probable to be agreed.

During the course of the contract, there is often significant change to the scope of the works and this has an impact on the programme and costs on the contract. The amount of resulting compensation events can be substantial and at any time these are often not fully agreed with the customer due to the timing and requirements of the contractual process. Also many will relate to work yet to be undertaken or completed. Therefore, assessments are based on an estimate of the potential cost impact of the compensation events.

The Group's five largest compensation events positions included in contract assets at the year end are summarised in aggregate below. In 2019, the most significant amounts related to the A465 and the Peterborough and Huntingdon contracts both of which contracts are discussed in note 3. Neither of these contracts are included in the 2020 analysis. The Peterborough & Huntingdon contract is discussed separately below.

	2020 £m	2019 £m
Overall contract value	**1,135.6**	1,334.0
Revenue in year	**176.9**	281.3
Total estimated end of contract compensation events	**83.1**	472.1
Total estimated unagreed end of contract compensation events	**51.3**	238.6
Total unagreed compensation events valued at year end and included in contract assets	**22.5**	45.7

The financial impact of changes to the value of compensation events finally agreed will depend on the precise terms of the contract and the interaction with incentive arrangements, such pain/gain mechanisms and bonus or KPI arrangements, and any assessments made about costs disallowed under the contract. If the estimated value of the unagreed end of contract compensation events in relation to the currently estimated change in these contracts was increased or decreased by 10%, the impact on the financial results over the life of the contract could be an increase or decrease of up to £7.0m (2019: up to £15.0m). Additional compensation events for further change may also arise over the remaining contract period.

2 Summary of significant accounting policies continued

Significant areas of judgement and estimation continued

The estimates of the contract position and the profit or loss earned to date are updated regularly and significant changes are highlighted through established internal review procedures. The impact of any change in the accounting estimates both positive and negative is then reflected in the financial statements.

Management believes it is reasonably possible, on the basis of existing knowledge, that outcomes within the next financial year could require material adjustment. Given the pervasive impact of judgements and estimates on revenue, cost of sales and related balance sheet amounts, it is difficult to quantify the impact of taking alternative assessments on each of the judgements above.

On 29 June 2020, Costain announced that a termination and settlement agreement (the "Agreement") had been reached with National Grid to cease work on the Peterborough & Huntingdon gas compressor project (the "Contract") following a significant change in scope. The Agreement includes a legal process, through adjudications, to agree up to £80.0m of identified compensation events, recover costs to date and eliminate a potential liability to National Grid for completing the works.

In its interim results for the six months ended 30 June 2020, Costain recorded a charge to the income statement of £49.3m reflecting the cash position at termination. The legal process is ongoing and all adjudications will be filed by December 2021. Supported by external advice, Costain believes it has a strong entitlement to retain, as a minimum, the reported position, with no further cash outflow.

Under the terms of the Agreement, the cumulative outcome for Costain of these adjudications could range from an additional cash receipt of up to a maximum of £50.0m to a cash payment (which would not affect the Group's banking arrangements) of up to a maximum of £57.3m. Any such cash adjustments would be made in the first quarter of 2022.

Carrying value of goodwill and intangible assets

Reviewing the carrying value of goodwill and intangible assets recognised on acquisition requires estimation and judgement, principally, in respect of operating margins, growth rates and future cash flows of cash generating units, the useful lives of intangible assets and the selection of discount rates used to calculate present values are set out in note 12.

The carrying value of development expenditure is reviewed against the expected future cash flows that will be generated from that asset. Development costs of products for sale are assessed against contracted sales and internal sales forecasts.

The Company carries investments in some subsidiaries at above net asset value. In reviewing the recoverability of these carrying values and of intercompany loans to these subsidiaries, estimates are required about their values.

Defined benefit pension schemes

Defined benefit pension schemes require significant estimates in relation to the assumptions for inflation, future pension increases, investment returns and member longevity that underpin the valuation. Each year in selecting the appropriate assumptions, the directors take advice from an independent qualified actuary. The assumptions and resultant sensitivities are set out in note 21.

Deferred tax

Included in deferred tax assets is an asset for tax losses recorded in the year. The asset is recognised on the basis that the losses will be used against future taxable profits of the Group over the next six years. Details of deferred tax assets are shown in note 9.

Other items

Management has used judgement to determine the items classified as other items and to determine the contract adjustments set out in note 3.

3 Reconciliation of reported revenue and operating (loss)/profit to adjusted revenue and operating profit

Adjusted revenue, operating profit and earnings per share are being used as non-GAAP performance measurements. The adjustments exclude the impact of significant one-off changes in the accounting treatments of three contracts, Peterborough & Huntingdon (P&H), the A465 Heads of the Valley road (A465) and the ASF South contracts, as described below, as well as the other items of £10.3m. The revenue adjustment represents the reversal of the contract asset recorded in the statement of financial position immediately prior to the write down. The Board considers the adjusted measures better reflect the underlying trading performance of the Group.

The Peterborough & Huntingdon contract charge followed the agreement with National Grid to mutually terminate the contract in June 2020. The position is described further in Significant areas of judgement and estimation in note 2.

At the date of termination, the Group had a contract asset of £42.0m associated with this contract and this was forecast to increase to £49.3m at the end of the works. Reflecting the commercial resolution process incorporated in the termination agreement and in accordance with IFRS 15, a one-off charge to the income statement of £49.3m was reflected to adjust the revenue recognised to the level of cash received and to cover the cost of remaining works. 2020 adjusted revenue includes £32.3m of revenue on Peterborough & Huntingdon up to the termination date.

The A465 Heads of the Valley road contract was entered into in 2015 for the Welsh Government. At 30 June 2020, the Group had a contract asset of £45.4m. The client had escalated a specific matter relating to the responsibility for design information for a specific retaining wall and whether it qualified as a compensation event to arbitration under the dispute resolution mechanism in the contract. While the issue was decided in the Group's favour by way of previous adjudication awards, the arbitrator found that responsibility for the design information rests with Costain and, consequently, the additional costs associated with the building of the retaining wall is not a compensation event under the contract. The arbitration award determined a matter of principle only, and not quantum, and was non-appealable. As a result of the decision, the Group adjusted the revenue recognised based on the level of cash received to date under the contract and reflected a write down of the £45.4m contract asset. Subsequently, the account has been agreed with the client in line with this write down. The Group will continue to fulfil its obligations under the contract, with completion scheduled in 2021. 2020 adjusted Group revenue includes £18.0m of revenue on the A465 contract.

The ASF South contract was in respect of works undertaken for Highways England that were completed in 2016. Following an extensive contract review, the Group has taken a one-off charge of £5.0m to close out this legacy contract.

3 Reconciliation of reported revenue and operating (loss)/profit to adjusted revenue and operating profit continued

2020	Adjusted £m	P&H £m	A465 £m	ASF South £m	Before other items £m	Other items £m	Total £m
Revenue before contract adjustments	1,070.5	–	–	–	1,070.5	–	1,070.5
Contract adjustments	–	(42.0)	(45.4)	(4.7)	(92.1)	–	(92.1)
Group revenue	1,070.5	(42.0)	(45.4)	(4.7)	978.4	–	978.4
Cost of sales	(1,019.4)	(7.3)	–	(0.3)	(1,027.0)	–	(1,027.0)
Gross profit/(loss)	51.1	(49.3)	(45.4)	(5.0)	(48.6)	–	(48.6)
Administrative expenses before other items	(33.1)	–	–	–	(33.1)	–	(33.1)
Other items	–	–	–	–	–	(10.3)	(10.3)
Administrative expenses	(33.1)	–	–	–	(33.1)	(10.3)	(43.4)
Group operating profit/(loss)	18.0	(49.3)	(45.4)	(5.0)	(81.7)	(10.3)	(92.0)
Share of results of joint ventures and associates	0.2	–	–	–	0.2	–	0.2
Profit/(loss) from operations	18.2	(49.3)	(45.4)	(5.0)	(81.5)	(10.3)	(91.8)
Net finance expense	(4.3)	–	–	–	(4.3)	–	(4.3)
Profit/(loss) before tax	13.9	(49.3)	(45.4)	(5.0)	(85.8)	(10.3)	(96.1)
Taxation	(1.5)	9.4	8.6	1.0	17.5	0.6	18.1
Profit/(loss) for the period attributable to equity holders of the parent	12.4	(39.9)	(36.8)	(4.0)	(68.3)	(9.7)	(78.0)
Basic earnings/(loss) per share	5.8p						(36.7)p

2019	Adjusted £m	P&H £m	A465 £m	ASF South £m	Before other items £m	Other items £m	Total £m
Revenue before contract adjustments	1,175.6	–	–	–	1,175.6	–	1,175.6
Contract adjustments	–	–	(20.0)	–	(20.0)	–	(20.0)
Group revenue	1,175.6	–	(20.0)	–	1,155.6	–	1,155.6
Cost of sales	(1,105.1)	–	–	–	(1,105.1)	(9.7)	(1,114.8)
Gross profit/(loss)	70.5	–	(20.0)	–	50.5	(9.7)	40.8
Administrative expenses before other items	(32.6)	–	–	–	(32.6)	–	(32.6)
Other items	–	–	–	–	–	(11.4)	(11.4)
Administrative expenses	(32.6)	–	–	–	(32.6)	(11.4)	(44.0)
Group operating profit/(loss)	37.9	–	(20.0)	–	17.9	(21.1)	(3.2)
Share of results of joint ventures and associates	0.3	–	–	–	0.3	–	0.3
Profit/(loss) from operations	38.2	–	(20.0)	–	18.2	(21.1)	(2.9)
Net finance expense	(3.6)	–	-	–	(3.6)	(0.1)	(3.7)
Profit/(loss) before tax	34.6	–	(20.0)	–	14.6	(21.2)	(6.6)
Taxation	(3.9)	–	3.8	–	(0.1)	3.8	3.7
Profit/(loss) for the period attributable to equity holders of the parent	30.7	–	(16.2)	–	14.5	(17.4)	(2.9)
Basic earnings/(loss) per share	25.1p						(2.3)p

4 Operating segments

The Group has two core business segments: natural resources and transportation plus the non-core business Alcaidesa in Spain. The core segments are strategic business units with separate management and have different core customers or offer different services. This information is provided to the Chief Executive who is the chief operating decision maker. The segments are discussed in the Strategic Report section of these financial statements.

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies. The Group evaluates segment performance on the basis of profit or loss from operations before interest and tax expense before and after other items and contract adjustments. The segment results that are reported to the Chief Executive include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Other items are allocated to the operating segments where appropriate, but otherwise are viewed as Central items.

Intersegment sales and transfers are not material.

4 Operating segments continued

2020	Natural resources £m	Transportation £m	Alcaidesa £m	Central costs £m	Total £m
Segment revenue					
Adjusted revenue	**345.1**	**724.2**	**1.2**	**–**	**1,070.5**
Contract adjustments	**(42.0)**	**(50.1)**	**–**	**–**	**(92.1)**
Group revenue	**303.1**	**674.1**	**1.2**	**–**	**978.4**
Segment profit/(loss)					
Adjusted operating profit	**5.7**	**20.1**	**(0.1)**	**(7.7)**	**18.0**
Contract adjustments	**(49.3)**	**(50.4)**	**–**	**–**	**(99.7)**
Operating loss before other items	**(43.6)**	**(30.3)**	**(0.1)**	**(7.7)**	**(81.7)**
Share of results of joint ventures and associates	**0.2**	**–**	**–**	**–**	**0.2**
Loss from operations before other items	**(43.4)**	**(30.3)**	**(0.1)**	**(7.7)**	**(81.5)**
Other items:					
Impairment of Alcaidesa marina	**–**	**–**	**(0.6)**	**–**	**(0.6)**
Impairment of other investment	**–**	**–**	**–**	**(0.6)**	**(0.6)**
Profit on sales of interests in joint ventures and associates	**1.6**	**–**	**–**	**–**	**1.6**
Profit on disposal of subsidiary undertakings	**–**	**–**	**0.4**	**1.0**	**1.4**
Refinancing advisory fees	**–**	**–**	**–**	**(1.2)**	**(1.2)**
Pension GMP equalisation charge	**–**	**–**	**–**	**(0.9)**	**(0.9)**
Amortisation of acquired intangible assets	**(0.7)**	**(0.3)**	**–**	**–**	**(1.0)**
Impairment of goodwill	**(9.0)**	**–**	**–**	**–**	**(9.0)**
Loss from operations	**(51.5)**	**(30.6)**	**(0.3)**	**(9.4)**	**(91.8)**
Net finance expense					**(4.3)**
Loss before tax					**(96.1)**
Segment profit/(loss) is stated after charging the following:					
Depreciation and impairment	**3.5**	**11.2**	**0.9**	**–**	**15.6**
Amortisation and impairment (including acquired intangible assets)	**9.9**	**0.6**	**–**	**–**	**10.5**
Segment assets					
Reportable segment assets	**123.2**	**191.9**	**–**	**0.1**	**315.2**
Unallocated assets:					
Deferred tax					**23.6**
Taxation					**0.2**
Cash and cash equivalents					**150.9**
Total assets					**489.9**
Expenditure on non-current assets					
Property, plant and equipment	**2.7**	**18.1**	**–**	**–**	**20.8**
Intangible assets	**1.7**	**1.9**	**–**	**–**	**3.6**
Segment liabilities					
Reportable segment liabilities	**61.1**	**195.9**	**–**	**24.0**	**281.0**
Unallocated liabilities:					
Retirement benefit obligations					**5.6**
Borrowings					**46.8**
Total liabilities					**333.4**

2019	Natural resources £m	Transportation £m	Alcaidesa £m	Central costs £m	Total £m
Segment revenue					
Adjusted revenue	429.4	740.6	5.6	–	1,175.6
Contract adjustments	–	(20.0)	–	–	(20.0)
Group revenue	429.4	720.6	5.6	–	1,155.6
Segment profit/(loss)					
Adjusted operating profit	15.4	29.7	(0.7)	(6.5)	37.9
Contract adjustments	–	(20.0)	–	–	(20.0)
Operating profit/(loss) before other items	15.4	9.7	(0.7)	(6.5)	17.9
Share of results of joint ventures and associates	0.3	–	–	–	0.3
Profit/(loss) from operations before other items	15.7	9.7	(0.7)	(6.5)	18.2
Other items:					
Exceptional costs of arbitration award on historical building project	(9.7)	–	–	–	(9.7)
Impairment of Alcaidesa marina	–	–	(5.9)	–	(5.9)
Loss on disposal of subsidiary undertakings	–	–	(3.0)	–	(3.0)
Amortisation of acquired intangible assets	(1.4)	(0.9)	–	–	(2.3)
Employment related and other deferred consideration	(0.2)	–	–	–	(0.2)
Profit/(loss) from operations	4.4	8.8	(9.6)	(6.5)	(2.9)
Net finance expense					(3.7)
Loss before tax					(6.6)
Segment profit/(loss) is stated after charging the following:					
Depreciation and impairment	6.7	9.6	7.3	–	23.6
Amortisation (including acquired intangible assets)	1.6	1.0	–	–	2.6
Segment assets					
Reportable segment assets	144.3	206.5	5.2	0.6	356.6
Unallocated assets:					
Retirement benefit asset					4.9
Deferred tax					4.6
Taxation					5.5
Cash and cash equivalents					180.9
Total assets					552.5
Expenditure on non-current assets					
Property, plant and equipment	5.0	12.4	0.2	–	17.6
Intangible assets	0.1	3.0	–	–	3.1
Segment liabilities					
Reportable segment liabilities	104.9	159.4	1.5	13.0	278.8
Unallocated liabilities:					
Borrowings					116.0
Total liabilities					394.8

4 Operating segments continued

Geographical information

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets are based on the geographical location of the assets and exclude deferred tax assets.

2020	External revenue £m	Non-current assets £m
UK	**977.2**	**95.9**
Spain	**1.2**	**–**
	978.4	**95.9**

2019	External revenue £m	Non-current assets £m
UK	1,150.0	107.5
Spain	5.6	5.1
	1,155.6	112.6

Customers accounting for more than 10% of revenue

Two customers (2019: three) in the transportation segment accounted for revenue of £546.1m (2019: £631.4m).

5 Other operating expenses and income

	2020 £m	2019 £m
Loss before tax is stated after charging:		
Amortisation and impairment of intangible assets (note 12)	**10.5**	2.6
Depreciation and impairment of property, plant and equipment (note 13)	**15.6**	23.6
Exceptional costs of arbitration award on historical building project	**–**	9.7
Impairment of other investment (note 16)	**0.6**	–
Loss on disposal of subsidiary undertakings - Spain (note 26)	**–**	3.0
Refinancing advisory fees	**1.2**	–
Pension GMP equalisation charge (note 21)	**0.9**	–
Expenses relating to short-term leases and leases of low value assets	**24.0**	28.8
and after crediting:		
Profit on sales of interests in joint ventures and associates	**1.6**	–
Profit on disposal of subsidiary undertakings - Spain and Zimbabwe (note 26)	**1.4**	–
Income from sub-leases of land and buildings	**–**	0.1
RDEC grant income	**1.7**	3.8
Receipts under the Coronavirus Job Retention Scheme	**2.0**	–

Amortisation and impairment of intangible assets includes the goodwill impairment of £9.0m (2019: £nil).

Depreciation and impairment of property plant and equipment includes impairment charges relating to the Alcaidesa marina of £0.6m (2019: £5.9m). The charges were based on offers for the sale of the asset, which was sold in August 2020 (note 26).

One-off advisory costs of £1.2m associated with the Group's capital raise and bank facilities.

An arbitration award in favour of the client for the cost of remedial works deemed required to the roof of a building constructed by the Group under a contract completed in 2006 was expensed in 2019.

Auditors' remuneration

	2020 £m	2019 £m
Fees payable to the Group's auditors for the audit of the annual financial statements	**0.1**	0.1
Fees payable to the Group's auditors and its associates in respect of:		
Audit of financial statements of subsidiaries of the Company	**0.7**	0.5
	0.8	0.6

An amount of £0.6m was paid to the Group's auditors in 2020 (2019: less than £0.1m) with regards to the capital raise (note 22) and the independent review of the interim results and other non-audit services.

Amounts paid to the Company's auditors and its associates in respect of services to the Company, other than the audit of the Company's financial statements, have not been disclosed as the information is required instead to be disclosed on a consolidated basis.

6 Employee benefit expense

Group	2020 £m	2019 £m
Wages and salaries	**182.0**	206.5
Social security costs	**19.2**	22.3
Other pension costs – defined contribution schemes (note 21)	**9.9**	10.4
Share-based payments expense (note 21)	**0.9**	0.5
	212.0	239.7

	2020 Number	2019 Number
Average number of persons employed		
Natural resources	**1,402**	1,418
Transportation	**1,827**	2,109
Alcaidesa	**20**	68
Central	**20**	18
	3,269	3,613

Of the above employees 21 were employed overseas (2019: 70).

Company

The Company does not employ any personnel, except for the directors considered in note 7.

7 Remuneration of directors

Details of the directors' remuneration, pension entitlements, interest in the Long-Term Incentive Plans, Annual Incentive Plans, Deferred Share Bonus Plans and share options are included in the Directors' Remuneration Report.

For the purpose of the disclosure required by Schedule 5 to the Companies Act 2006, the total aggregate emoluments of the directors in respect of 2020 and 2019 are detailed below.

	2020 £m	2019 £m
Remuneration	**1.2**	1.2
Post-employment benefits	**0.1**	0.1
Gains made on the exercise of share-based plans	**–**	–
	1.3	1.3

8 Net finance expense

	2020 £m	2019 £m
Interest income from bank deposits	**0.5**	0.7
Interest income on loans to related parties	**0.1**	0.2
Interest income on the net assets of the defined benefit pension scheme (note 21)	**0.2**	0.1
Finance income	**0.8**	1.0
Interest payable on interest bearing bank loans, borrowings and other similar charges	**(4.1)**	(3.3)
Interest expense on lease liabilities	**(1.0)**	(1.3)
Unwind of discount on deferred consideration	**–**	(0.1)
Finance expense	**(5.1)**	(4.7)
Net finance expense	**(4.3)**	(3.7)

Other similar charges includes arrangement and commitment fees payable. Interest income on loans to related parties relates to shareholder loan interest receivable from investments in equity accounted joint ventures and associates.

9 Taxation

	2020 £m	2019 £m
On loss for the year		
UK corporation tax at 19% (2019: 19%)	**(1.9)**	1.1
Adjustment in respect of prior years	**3.0**	1.9
Current tax credit for the year	**1.1**	3.0
Deferred tax expense for the current year	**19.7**	(1.2)
Adjustment in respect of prior years	**(2.7)**	1.9
Deferred tax credit for the year	**17.0**	0.7
Tax credit in the consolidated income statement	**18.1**	3.7

	2020 £m	2019 £m
Tax reconciliation		
Loss before tax	**(96.1)**	(6.6)
Taxation at 19% (2019: 19%)	**18.3**	1.3
Amounts qualifying for tax relief and disallowed expenses	**(1.3)**	(1.2)
Tax decrease from other tax effects	**0.6**	–
Rate adjustment relating to deferred taxation and overseas profits and losses	**0.2**	(0.2)
Adjustments in respect of prior years	**0.3**	3.8
Tax credit in the consolidated income statement	**18.1**	3.7
Effective rate of tax	**18.8%**	56.1%

The tax above does not include any amounts for equity accounted joint ventures and associates, whose results are disclosed in the consolidated income statement net of tax.

The current tax assets of £0.2m (2019: £5.5m) for the Group and liability of £1.5m (2019: £1.5m) for the Company represent the amount of tax in respect of all outstanding periods and include the Group's best estimate of any assets and liabilities, where appropriate.

Accumulated tax trading losses carried forward in the UK were £104.5m (2019: £13.0m).

Accumulated tax losses in Spain are now £nil following the disposal in the year (2019: £11.2m). See note 26.

	2020 £m	2019 £m
Tax in other comprehensive income and expense statement		
Current tax - Retirement benefit obligations	**1.8**	–
Deferred tax - Retirement benefit obligations/assets	**2.0**	1.2
Tax credit in the other comprehensive income and expense statement	**3.8**	1.2

	2020 £m	2019 £m
Deferred tax asset recognised		
Accelerated capital allowances	**1.1**	1.3
Short-term temporary differences	**1.5**	1.9
Retirement benefit obligations/assets	**1.1**	(0.8)
Tax losses	**19.9**	2.2
Deferred tax asset	**23.6**	4.6

UK deferred tax assets have been recognised at 19% (2019: 17% or 19%).

Deferred tax assets have been recognised in respect of tax losses. The deferred tax assets include an amount of £19.9m which relates to carried forward tax losses in the UK which have been recognised to the extent that they will be recoverable using the estimated future taxable income based on the approved budgets for the Group. These losses can be carried forward indefinitely and have no expiry date.

The Company has a deferred tax asset of £0.1m (2019: £nil) relating to short-term temporary differences.

	2020 £m	2019 £m
Analysis of deferred tax movements		
At 1 January	**4.6**	2.7
Deferred tax in consolidated income statement		
Accelerated capital allowances	**(0.2)**	–
Short-term temporary differences	**(0.4)**	1.3
Retirement benefit obligations/assets	**(0.1)**	(2.8)
Tax losses	**17.7**	2.2
	17.0	0.7
Deferred tax in other comprehensive income and expense statement		
Retirement benefit obligations/assets	**2.0**	1.2
At 31 December	**23.6**	4.6

9 Taxation continued

Factors that may affect future tax charges

The rate of UK tax was originally set to reduce to 17% with effect from 1 April 2020. However, at Budget 2020, the government announced that the rate for years starting 1 April 2020 and 2021 would remain at 19%. This was substantively enacted on 17 March 2020. The above deferred tax assets are reflected at the 19% rate.

In the Spring Budget 2021, the Government announced that from 1 April 2023 the corporation tax rate would increase to 25%. As the proposal to increase the rate to 25% has not been substantively enacted at the balance sheet date, its effects are not included in these financial statements. However, it is likely that the overall effect of the change, had it been substantively enacted by the balance sheet date, would be to reduce the tax expense for the period by £4.0m and increase the deferred tax asset by £4.0m.

The Group and Company have deferred tax assets in their UK operations that have not been recognised at the year-end on the basis that their future economic benefits were not assured at the statement of financial position date.

The following gross assets are available to be recognised as deferred tax assets:

	Group		Company	
	2020 £m	**2019 £m**	**2020 £m**	**2019 £m**
Accelerated capital allowances	**–**	–	**–**	–
Short-term temporary differences	**–**	–	**–**	–
Trading tax losses	**0.1**	0.1	**–**	–
Total	**0.1**	0.1	**–**	–
In addition to the above temporary differences, the following gross value items are available as deferred tax assets:				
Management expenses and charges incurred by Parent Company	**54.7**	54.7	**54.7**	54.7
Spanish tax losses carried forward	**–**	11.2	**–**	–
Capital losses	**270.6**	270.6	**241.0**	241.0

The current year tax effect, at 19%, of claiming short-term temporary differences and trading tax losses was £nil (2019: £nil) as shown in the tax reconciliation above.

There are no expiry dates associated with the deferred tax assets not recognised.

10 (Loss)/earnings per share

The calculation of (loss)/earnings per share is based on loss of £78.0m (2019: £2.9m) and the number of shares set out below.

	2020 Number (millions)	**2019 Number (millions)**
Weighted average number of ordinary shares in issue for basic earnings per share calculation	**212.8**	107.6
Dilutive potential ordinary shares arising from employee share schemes	**2.9**	0.2
Weighted average number of ordinary shares in issue for diluted earnings per share calculation	**215.7**	107.8

At 31 December 2020, 816,290 options were excluded from the weighted average number of ordinary shares calculation because they were anti-dilutive (2019: 1,463,187 options were excluded).

11 Dividends

	Dividend per share pence	2020 £m	2019 £m
Final dividend for the year ended 31 December 2018	10.00	–	10.7
Interim dividend for the year ended 31 December 2019	3.80	–	4.1
Amount recognised as distributions to equity holders in the year		–	14.8
Dividends settled in shares		–	(1.3)
Dividends settled in cash		–	13.5

Consistent with the rationale for the equity raise, the Company paid no final dividend in respect of the year ended 31 December 2019, therefore resulting in a total dividend paid for the prior year being the interim dividend, of 3.8 pence per share.

No dividends were paid or proposed in respect of the year ended 31 December 2020. The Board of directors current policy for dividends is described in note 18 a) Capital management.

12 Intangible assets

Group	Goodwill £m	Customer relationships £m	Other acquired intangibles £m	Other intangibles £m	Total £m
Cost					
At 1 January 2019	54.1	15.4	9.7	7.7	86.9
Additions	–	–	–	3.1	3.1
At 31 December 2019	54.1	15.4	9.7	10.8	90.0
At 1 January 2020	**54.1**	**15.4**	**9.7**	**10.8**	**90.0**
Additions	**–**	**–**	**–**	**3.6**	**3.6**
At 31 December 2020	**54.1**	**15.4**	**9.7**	**14.4**	**93.6**
Accumulated amortisation and impairment					
At 1 January 2019	–	12.5	8.9	7.0	28.4
Charge in year	–	1.8	0.5	0.3	2.6
At 31 December 2019	–	14.3	9.4	7.3	31.0
At 1 January 2020	**–**	**14.3**	**9.4**	**7.3**	**31.0**
Charge in year	**–**	**0.7**	**0.3**	**0.5**	**1.5**
Impairment in year	**9.0**	**–**	**–**	**–**	**9.0**
At 31 December 2020	**9.0**	**15.0**	**9.7**	**7.8**	**41.5**
Net book value					
At 31 December 2020	**45.1**	**0.4**	**–**	**6.6**	**52.1**
At 31 December 2019	54.1	1.1	0.3	3.5	59.0
At 1 January 2019	54.1	2.9	0.8	0.7	58.5

12 Intangible assets continued

The amortisation charges for the year are included in administration expenses.

The net book value of other acquired intangible assets includes £nil (2019: £0.3m) relating to order book.

Other intangibles includes development expenditure of £5.0m (2019: £2.8m).

Goodwill has been allocated to the applicable cash generating units of the Transportation segment (£15.5m (2019: £15.5m)) and the Natural Resources segment (£29.6m (2019: £38.6m)).

As described in note 2, the Group reviews the value of goodwill and in the absence of any identified impairment risks, tests are based on internal value in use calculations of the cash generating unit (CGU). The key assumptions for these calculations are: operating margins, discount rates and growth rates.

Discount rates have been estimated based on pre-tax rates that reflect current market assessments of the Group's weighted average cost of capital and the risks specific to the CGU. The rate used to discount the forecast cash flows for the Transportation CGU was 12.4% and for the Natural Resources CGU was 12.5%. In 2019, the discount rates used for the two CGUs were Transportation 10.9% and Natural Resources 10.2%.

The value in use calculations use the Group's two-year cash flow forecasts, which are based on the expected revenues of each CGU taking into account the current level of secured and anticipated orders, extrapolated for future years by the expected growth applicable to each CGU as follows:

Growth rates	Transportation %	Natural resources %
Year 3	**1.5**	**1.5**
Year 4	**1.5**	**1.5**
Year 5	**1.5**	**1.5**
Long-term average	**1.5**	**1.5**

At 31 December 2020, based on the internal value in use calculations, management concluded that the recoverable value of the Transportation cash generating units exceeded its carrying amount with substantial headroom on goodwill. Accordingly, in the view of the directors there is no reasonably foreseeable change in a key assumption that would result in an impairment charge. In respect of Natural Resources, the sensitivity of the assessment to a lower revenue and/or underlying operating margins has resulted in an impairment of the goodwill by £9.0m, reducing the amount allocated to Natural Resources to £29.6m.

The recoverable amount of the Natural Resources goodwill continues to be subject to sensitivities and changes in the value in use assessment assumptions would have resulted in the following changes:

- Increase discount rate by 0.25% increases impairment by £2.1m;
- Decrease growth rate by 0.25% increases impairment by £1.8m;
- Reduce business operating margin by 0.5% increases impairment by £15.7m.

Accordingly, reasonably possible changes exist that would give rise to a further impairment.

13 Property, plant and equipment

Group	Land and buildings £m	Plant and equipment £m	Right-of-use assets: Land and buildings £m	Right-of-use assets: Vehicles, plant and equipment £m	Total £m
Cost					
At 1 January 2019	32.1	32.2	–	–	64.3
Adjustment on transition to IFRS 16	–	–	20.0	13.0	33.0
Restated at the beginning of the financial year	32.1	32.2	20.0	13.0	97.3
Currency movements	(1.1)	(0.2)	–	–	(1.3)
Additions	0.1	3.7	1.7	12.1	17.6
Disposal of subsidiary undertakings	(18.4)	(1.0)	–	–	(19.4)
Disposals	(0.2)	(2.4)	(2.2)	(3.9)	(8.7)
At 31 December 2019	12.5	32.3	19.5	21.2	85.5
At 1 January 2020	**12.5**	**32.3**	**19.5**	**21.2**	**85.5**
Currency movements	**0.8**	**0.3**	**–**	**–**	**1.1**
Additions	**–**	**0.5**	**1.2**	**19.1**	**20.8**
Disposal of subsidiary undertakings (note 26)	**(12.5)**	**(4.0)**	**–**	**–**	**(16.5)**
Disposals	**(0.2)**	**(2.1)**	**(0.2)**	**(10.0)**	**(12.5)**
At 31 December 2020	**0.6**	**27.0**	**20.5**	**30.3**	**78.4**
Accumulated depreciation					
At 1 January 2019	3.8	20.5	–	–	24.3
Currency movements	(0.3)	(0.1)	–	–	(0.4)
Charge in year	0.8	2.9	4.6	9.4	17.7
Impairment	5.9	–	–	–	5.9
Disposal of subsidiary undertakings	(0.5)	(0.4)	–	–	(0.9)
Disposals	(0.2)	(2.1)	(0.3)	(2.6)	(5.2)
At 31 December 2019	9.5	20.8	4.3	6.8	41.4
At 1 January 2020	**9.5**	**20.8**	**4.3**	**6.8**	**41.4**
Currency movements	**0.6**	**0.1**	**–**	**–**	**0.7**
Charge in year	**–**	**2.7**	**4.3**	**8.0**	**15.0**
Impairment	**0.6**	**–**	**–**	**–**	**0.6**
Disposal of subsidiary undertakings (note 26)	**(10.0)**	**(1.9)**	**–**	**–**	**(11.9)**
Disposals	**(0.1)**	**(1.9)**	**(0.2)**	**(5.1)**	**(7.3)**
At 31 December 2020	**0.6**	**19.8**	**8.4**	**9.7**	**38.5**
Net book value					
At 31 December 2020	**–**	**7.2**	**12.1**	**20.6**	**39.9**
At 31 December 2019	3.0	11.5	15.2	14.4	44.1
At 1 January 2019	28.3	11.7	–	–	40.0

Land and buildings includes an impairment charge of £0.6m (2019: £5.9m) in respect of the Alcaidesa marina.

13 Property, plant and equipment continued

Leased assets

Other amounts recognised in the income statement:

	2020 £m	2019 £m
Interest expense (included in finance expense)	**1.0**	1.3
Expense relating to short-term leases (included in cost of sales and administrative expenses)	**24.0**	28.8

The lease liabilities relating to these right-of-use assets are as follows:

	2020 £m	2019 £m
Current	**12.5**	12.8
Non-current	**20.8**	17.2
	33.3	30.0

14 Investments and loans in subsidiaries, equity accounted joint ventures and associates

	Investments		Loans	
Group	**Joint ventures £m**	**Associates £m**	**Associates £m**	**Total £m**
Cost				
At 1 January 2019	14.4	0.1	1.6	16.1
Repayments	–	–	(0.1)	(0.1)
At 31 December 2019	14.4	0.1	1.5	16.0
At 1 January 2020	**14.4**	**0.1**	**1.5**	**16.0**
Disposals	**–**	**(0.1)**	**(1.5)**	**(1.6)**
At 31 December 2020	**14.4**	**–**	**–**	**14.4**
Share of post-acquisition reserves				
At 1 January 2019	(14.0)	0.4		(13.6)
Dividends	–	(0.2)		(0.2)
Profit for the year	–	0.3		0.3
At 31 December 2019	(14.0)	0.5		(13.5)
At 1 January 2020	**(14.0)**	**0.5**		**(13.5)**
Disposals	**–**	**(0.5)**		**(0.5)**
Dividends	**–**	**(0.2)**		**(0.2)**
Profit for the year	**–**	**0.2**		**0.2**
At 31 December 2020	**(14.0)**	**–**		**(14.0)**
Net book value				
At 31 December 2020	**0.4**	**–**	**–**	**0.4**
At 31 December 2019	0.4	0.6	1.5	2.5
At 1 January 2019	0.4	0.5	1.6	2.5

Analysis of Group share of joint ventures and associates revenue, income and assets and liabilities

	2020			2019		
	Joint ventures £m	Associates £m	Total £m	Joint ventures £m	Associates £m	Total £m
Revenue	**1.9**	**0.5**	**2.4**	6.5	0.8	7.3
Profit before tax	**–**	**0.2**	**0.2**	–	0.3	0.3
Taxation	**–**	**–**	**–**	–	–	–
Profit for the year	**–**	**0.2**	**0.2**	–	0.3	0.3
Non-current assets	**–**	**–**	**–**	–	–	–
Trade and other receivables	**6.1**	**–**	**6.1**	6.9	1.4	8.3
Cash and cash equivalents	**0.1**	**–**	**0.1**	0.2	0.6	0.8
Trade and other payables – current	**(5.8)**	**–**	**(5.8)**	(6.7)	(0.2)	(6.9)
Non-current liabilities	**–**	**–**	**–**	–	(1.2)	(1.2)
Investments in joint ventures and associates	**0.4**	**–**	**0.4**	0.4	0.6	1.0
Dividends received by Group	**–**	**0.2**	**0.2**	–	0.2	0.2

Net interest payable by joint ventures and associates in 2020 was £nil (2019: £nil). The applicable interest rates during the year are income of 0.2% to 13.6% per annum (2019: 0.2% to 13.6%) and expense of 10.7% to 13.6% per annum (2019: 10.7% to 13.6%).

At the year-end, there were no capital or financial commitments entered into by the joint ventures or associates (2019: £nil).

Analysis of the total revenue, income, assets and liabilities of joint ventures and associates

	2020			2019		
	Joint ventures £m	Associates £m	Total £m	Joint ventures £m	Associates £m	Total £m
Revenue	**4.8**	**1.3**	**6.1**	17.3	2.0	19.3
Profit before tax	**–**	**0.5**	**0.5**	–	0.7	0.7
Taxation	**–**	**(0.1)**	**(0.1)**	–	(0.1)	(0.1)
Profit for the year	**–**	**0.4**	**0.4**	–	0.6	0.6
Non-current assets	**–**	**–**	**–**	–	–	–
Trade and other receivables	**17.6**	**–**	**17.6**	19.4	3.5	22.9
Cash and cash equivalents	**0.3**	**–**	**0.3**	0.5	1.5	2.0
Trade and other payables – current	**(16.9)**	**–**	**(16.9)**	(19.0)	(0.6)	(19.6)
Non-current liabilities	**–**	**–**	**–**	–	(3.0)	(3.0)
Equity	**1.0**	**–**	**1.0**	0.9	1.4	2.3

Details of subsidiary undertakings, joint ventures, joint operations and associates are shown in note 24.

There is no other comprehensive income/(expense) in respect of joint ventures and the associates.

14 Investments and loans in subsidiaries, equity accounted joint ventures and associates continued

Company

Investments in subsidiaries	£m
Cost	
At 1 January 2019	380.2
Additions	0.8
At 31 December 2019	381.0
At 1 January 2020	**381.0**
Additions	**43.9**
At 31 December 2020	**424.9**
Amounts written off	
At 1 January 2019	(239.7)
At 31 December 2019	(239.7)
At 1 January 2020	**(239.7)**
Impairment in year	**(34.0)**
At 31 December 2020	**(273.7)**
Net book value	
At 31 December 2020	**151.2**
At 31 December 2019	141.3
At 1 January 2019	140.5

Additions relate to a capital increase in a subsidiary of the Company (£42.9m) and to the increase in the cost of investments in subsidiaries by the equivalent amount of the equity-settled share-based payment charge in relation to employees of subsidiaries included in the income statement (£1.0m (2019 £0.8m)).

Details of the subsidiaries in which the Company has an interest are set out in note 24.

15 Assets and liabilities related to contracts with customers

The Group has recognised the following assets and liabilities related to contracts with customers, in addition to amounts included in trade receivables:

	2020 £m	2019 £m
Contract assets	**97.3**	133.5
Non-current assets recognised relating to customer retentions	**3.5**	1.5
Contract liabilities	**(5.5)**	(6.4)

Contract assets is made up of a portfolio of contracts and represents unbilled amounts and includes amounts arising from changes to the scope of works that have been recognised as revenue but not yet billed to the customer. There are no significant one-off factors outside of normal trading.

Contract liabilities result when cumulative cash received exceeds cumulative revenue on any particular contract. On contracts undertaken by the Group, this typically results from work being undertaken, or on framework contracts awarded, in a different order to the programme envisaged in the contractual payments schedule.

Revenue recognised in 2020 from performance obligations satisfied in previous periods was immaterial.

The aggregate amount of costs incurred plus recognised profits, less recognised losses, for all contracts in progress at the statement of financial position date was £4,220.5m (2019: £4,063.0m). Progress billings and advances received from customers under open construction contracts amounted to £4,126.9m (2019: £3,938.2m). Advances for which work has not started, and billings in excess of costs incurred and recognised profits are included in credit balances on long-term contracts.

Unsatisfied long-term contracts

The following table shows unsatisfied performance obligations resulting from long-term contracts:

	2020 £m	2019 £m
Aggregate amount of the transaction price allocated to long-term contracts that are partially or fully unsatisfied as at 31 December	2,996.1	1,358.8

Management expects that approximately 30% of the transaction price allocated to the unsatisfied contracts as of 31 December 2020 will be recognised as revenue during the next reporting period (£828.0m). Of the remaining 70%, 50% will be recognised during 2022 to 2024.

Mobilisation costs and costs incurred to obtain a contract

The Group does not have any assets relating to mobilisation costs or costs incurred to obtain a contract.

16 Trade and other receivables

	Group		Company	
	2020 £m	2019 £m	2020 £m	2019 £m
Amounts included in current assets				
Trade receivables	**82.7**	70.0	**–**	–
Other receivables	**7.6**	10.1	**–**	–
Contract assets	**97.3**	133.5	**–**	–
Prepayments and accrued income	**25.8**	31.0	**–**	–
Amounts owed by joint ventures and associates	**5.3**	3.0	**–**	–
Amounts owed by subsidiary undertakings	**–**	–	**134.9**	175.4
	218.7	247.6	**134.9**	175.4
Amounts included in non-current assets				
Other receivables	**3.5**	2.1	**–**	–

At 31 December 2020, contract assets falling due within one year include retentions of £1.9m (2019: £2.3m) relating to long-term contracts in progress. Other receivables falling due after more than one year include retentions of £3.5m (2019: £1.5m) relating to long-term contracts in progress. The 2019 over one year number included a minor stake in a hotel company recorded at £0.6m, this was impaired to nil in the 2020 results reflecting the significant impact of COVID-19 in that sector.

The average credit period within trade receivables on amounts billed for contract work and on sales of goods is 32 days (2019: 35 days). The analysis of the due dates of the trade receivables was £76.3m (2019: £60.5m) due within 30 days, £4.1m (2019: £2.1m) due between 30 and 60 days and £2.3m (2019: £7.4m) due after 60 days. An analysis of trade receivables that are beyond their due dates is shown in note 18.

In respect of the Company, amounts due from subsidiary undertakings are repayable on demand and may be interest-bearing.

17 Cash, loans and borrowings

Cash and cash equivalents

Cash and cash equivalents are analysed below, and include the Group's share of cash held by joint operations of £61.1m (2019: £83.5m).

	Group		Company	
	2020 £m	2019 £m	2020 £m	2019 £m
Cash and cash equivalents	**150.9**	180.9	**20.1**	0.1
Cash and cash equivalents in the cash flow statement	**150.9**	180.9	**20.1**	0.1

Interest-bearing loans and borrowings

	Group		Company	
	2020 £m	2019 £m	2020 £m	2019 £m
Current				
Revolving Credit Facility	**–**	60.0	**–**	60.0
Term Loan	**7.2**	8.0	**7.2**	8.0
	7.2	68.0	**7.2**	68.0
Non-current				
Term Loan	**39.6**	48.0	**39.6**	48.0
	39.6	48.0	**39.6**	48.0

The Term Loan is stated after associated arrangement fees of £1.2m, which are being amortised over the period of the facility with £0.8m classified within one year. The Group's borrowings facilities are described in note 18.

Cash flow information

Net cash/(debt) reconciliation

This section sets out an analysis of net cash/(debt) and movements in net cash/(debt) during the year.

	Group		Company	
	2020 £m	**2019 £m**	**2020 £m**	**2019 £m**
Cash and cash equivalents	**150.9**	180.9	**20.1**	0.1
Borrowings – current	**(7.2)**	(68.0)	**(7.2)**	(68.0)
Borrowings – non-current	**(39.6)**	(48.0)	**(39.6)**	(48.0)
Net cash/(debt)	**104.1**	64.9	**(26.7)**	(115.9)

Group	**Cash and cash equivalents £m**	**Borrowings – current £m**	**Borrowings – non-current £m**	**Total £m**
Net cash/(debt) at 1 January 2019	189.3	(10.0)	(60.5)	118.8
Cash flows	(8.4)	(58.9)	12.5	(54.8)
Disposal of subsidiary undertakings	–	0.7	–	0.7
Effect of foreign exchange rate changes	–	0.2	–	0.2
Net cash/(debt) at 31 December 2019	180.9	(68.0)	(48.0)	64.9
Net cash/(debt) at 1 January 2020	**180.9**	**(68.0)**	**(48.0)**	**64.9**
Cash flows	**(29.4)**	**60.8**	**8.4**	**39.8**
Effect of foreign exchange rate changes	**(0.6)**	**–**	**–**	**(0.6)**
Net cash/(debt) at 31 December 2020	**150.9**	**(7.2)**	**(39.6)**	**104.1**

Company	**Cash and cash equivalents £m**	**Borrowings – current £m**	**Borrowings – non-current £m**	**Total £m**
Net cash/(debt) at 1 January 2019	–	(9.8)	(60.0)	(69.8)
Cash flows	0.1	(58.2)	12.0	(46.1)
Net cash/(debt) at 31 December 2019	0.1	(68.0)	(48.0)	(115.9)
Net cash/(debt) at 1 January 2020	**0.1**	**(68.0)**	**(48.0)**	**(115.9)**
Cash flows	**20.0**	**60.0**	**8.0**	**88.0**
Arrangement fees	**–**	**0.8**	**0.4**	**1.2**
Net cash/(debt) at 31 December 2020	**20.1**	**(7.2)**	**(39.6)**	**(26.7)**

18 Financial instruments – Fair values and risk management

Risk management

The Group's centralised treasury function manages financial risk, principally arising from liquidity and funding risks and movements in foreign currency rates and interest rates, in accordance with policies agreed by the directors.

Neither the Company or the Group enters into speculative transactions.

a) Capital management

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern and to provide resources to grow the business, in order to provide returns for shareholders and other stakeholders. The current capital base of the Group is driven by equity capital from shareholders and retained earnings. During 2020, the Group raised additional capital from shareholders of £92.5m (note 22). The Board of directors ('Board') will continue to seek to strengthen the Group by growing the business and improving profitability; the Strategic Report describes the Group's strategy and its operations. The Board will continue to review the timing of the reinstatement of future dividends in the light of the Group's performance, cash flow requirements and the importance of maintaining a strong balance sheet.

b) Liquidity and funding risk

Ultimate responsibility for liquidity and funding risk rests with the Board, which has put in place a monitoring and reporting framework to manage funding requirements.

Liquidity risk is managed by monitoring actual and forecast short and medium-term cash flows and the maturity profile of financial assets and liabilities and by maintaining adequate cash reserves and bank facilities. The nature and timing of the contract cash flows causes the cash balances to vary over the month with the balance usually highest at month end.

The average month end net cash balance during the year was £73.8m (2019: £41.2m).

Customers awarding long-term contracting work may, as a condition of the award, require the contractor to provide performance and other bonds. Consequently, the Group is reliant on its ability to source bank and surety bonds. It has facilities in place to provide these bonds and monitors the usage and regularly updates the forecast usage of these facilities.

At 31 December 2020, the Group had banking and bonding facilities, including a £131.0m (2019: £131.0m) Revolving Credit Facility and a £48.0m (2019: £56.0m) Term Loan, extending to 24 September 2023. The unsecured facilities have financial covenants based on interest cover and leverage measured quarterly. The covenants are based on accounting standards already in force at the date of signing the facilities and any subsequent agreements. The Group complied with all covenants in 2020. The unsecured bonding facilities are set out below:

	Group and Company	
	2020 £m	**2019 £m**
Expiring between one and five years	**320.0**	320.0
Element of above facilities available for borrowings	**2.5**	2.5

At 31 December 2020, the utilisation of these bonding facilities amounted to £112.3m (2019: £122.0m).

c) Credit risk

The Group focuses on major blue-chip private sector and large public sector customers. In respect of contracts with other customers, the Group uses an external credit scoring system to assess a potential customer's credit quality and considers the timing and amounts of progress payments and will enter into a contract only if these assessments are satisfactory.

To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. Group 1 comprises major blue-chip private sector and large public sector customers. Group 2 includes smaller customers and receivables arising from various additional services undertaken as requirements of some of the maintenance contracts. Group revenue of £964.2m (2019: £1,123.5m) was attributable to Group 1 customers and £14.2m (2019: £32.1m) attributable to Group 2 customers.

The contract assets relate to unbilled work in progress and have substantially the same credit risk characteristics as the trade receivables for the same types of contracts. The Group has concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

The loss rates, which were reviewed in the light of the impact of COVID-19 and considered still appropriate, will be adjusted to reflect current and forward-looking information on macroeconomic factors that might affect the ability of the customers to settle the receivables.

On this basis, the loss allowance as at 31 December 2020 and 31 December 2019 was determined as follows for both trade receivables and contract assets:

	Current	Less than 60 days past due	60 to 120 days past due	More than 120 days past due	Total
31 December 2020					
Group 1					
Expected loss rate	**0.00%**	**0.10%**	**0.25%**	**0.50%**	
	£m	**£m**	**£m**	**£m**	**£m**
Trade receivables	**67.7**	**11.3**	**1.1**	**1.6**	**81.7**
Contract assets	**53.8**	**26.9**	**10.2**	**6.4**	**97.3**
Loss allowance	**–**	**–**	**–**	**–**	**–**
Group 2					
Expected loss rate	**1.0%**	**2.0%**	**15.0%**	**30.0%**	
	£m	**£m**	**£m**	**£m**	**£m**
Trade receivables	**0.2**	**0.8**	**–**	**–**	**1.0**
Contract assets	**–**	**–**	**–**	**–**	**–**
Loss allowance	**–**	**–**	**–**	**–**	**–**
31 December 2019					
Group 1					
Expected loss rate	0.00%	0.10%	0.25%	0.50%	
	£m	**£m**	**£m**	**£m**	**£m**
Trade receivables	58.3	3.4	2.2	6.1	70.0
Contract assets	90.4	24.8	8.3	10.0	133.5
Loss allowance	–	–	–	0.1	0.1
Group 2					
Expected loss rate	1.0%	2.0%	15.0%	30.0%	
	£m	**£m**	**£m**	**£m**	**£m**
Trade receivables	–	0.1	–	–	0.1
Contract assets	–	–	–	–	–
Loss allowance	–	–	–	–	–

18 Financial instruments – Fair values and risk management continued

Risk management continued

Impairment losses on trade receivables and contract assets are included within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item. The total provision for impairment of trade and other receivables is £0.3m (2019: £0.4m). The credit risk in contract assets is not material.

Deposits in the UK are placed with the bank facility providers or, in joint operations, with banks agreed by the partners. Overseas deposits are placed with major banks operating in those countries. Transactions involving derivative financial instruments are with bank or insurance company counterparties with high credit ratings that are monitored regularly and with whom there are signed netting agreements. Given the high credit ratings of the banks and insurance companies used, management does not expect any counterparty will fail to meet its obligations.

At the year-end date, excluding UK Government bodies, there were no significant concentrations of credit risk.
The maximum exposure to credit risk is represented by the carrying amounts of each financial asset, including derivative financial instruments, and the individual constituents of contract assets in the statement of financial position.

d) Interest rate risk

The Group has cash balances in the UK and overseas and bank borrowings in the UK and, up to the date of the disposal of the subsidiary undertaking, in Spain. The largest constituents are UK balances denominated in pounds sterling.

The Group has interest rate swap arrangements that fix the effective LIBOR interest rate on £50.0m of pounds sterling borrowings up to June 2021.

A 1% rise in interest rates would have increased the annual interest income on net cash balances by approximately £1.0m (2019: approximately £0.7m).

e) Foreign currency risk

Transactional currency exposures arise from sales or purchases by operating companies in currencies other than their functional currency. The current strategy is to hedge both committed and forecast foreign currency exposures, where applicable, and where the transaction timing and amount can be determined reliably and no natural hedge exists. The Group only enters into forward contracts when a contractual commitment exists in respect of the foreign currency transaction and the Group's policy is to negotiate the terms of the hedge derivative to match the terms of the hedged item to maximise hedge effectiveness. The Group's treasury function evaluates and hedges foreign currency risks, in close cooperation with the responsible operational management team.

Cash flow hedges

Forward currency contracts that hedge forecast transactions are classified as cash flow hedges and stated at fair value based on a Level 2 valuation method, using quoted forward exchange rates. The terms of the foreign currency contracts match the terms of the commitments.

Interest rate swaps are classified as cash flow hedges and stated at fair value based on a Level 2 valuation method using yield curves derived from prevailing market interest rates.

At 31 December 2020, the Group had cash flow hedges as summarised below. The carrying value represents the fair value of the contract; the contractual cash flows represent the pounds sterling commitments. There were no ineffective hedges at the year-end (2019: none).

	2020				2019			
	Carrying amount £m	Contractual cash flows £m	Within one year £m	Between one and five years £m	Carrying amount £m	Contractual cash flows £m	Within one year £m	Between one and five years £m
Foreign exchange contracts:								
Purchases	**–**	**(4.5)**	**(4.5)**	**–**	(0.5)	(13.0)	(12.5)	(0.5)
Sales	**–**	**1.1**	**1.1**	**–**	0.1	1.0	0.5	0.5
	–	**(3.4)**	**(3.4)**	**–**	(0.4)	(12.0)	(12.0)	–
Interest rate swaps	**(0.4)**	**(0.2)**	**(0.2)**	**–**	(0.2)	(0.7)	(0.5)	(0.2)
	(0.4)	**(3.6)**	**(3.6)**	**–**	(0.6)	(12.7)	(12.5)	(0.2)

The carrying amount of hedge instruments is included in trade and other receivables or trade and other payables. The expected impact on the income statement of the foreign exchange contracts is £nil and of the interest rate swaps is £0.4m in 2021.

The movements on the hedging reserve by classification are set out below.

	Spot component of currency forwards £m	Interest rate swaps £m	Total hedge reserves £m
At 1 January 2019	0.5	0.2	0.7
Change in fair value of hedging instrument recognised in OCI for the year	0.1	(0.5)	(0.4)
Reclassified from OCI to profit or loss	(0.8)	–	(0.8)
At 31 December 2019	(0.2)	(0.3)	(0.5)
At 1 January 2020	**(0.2)**	**(0.3)**	**(0.5)**
Change in fair value of hedging instrument recognised in OCI for the year	**–**	**(0.3)**	**(0.3)**
Reclassified from OCI to profit or loss	**0.2**	**0.3**	**0.5**
At 31 December 2020	**–**	**(0.3)**	**(0.3)**

The Company is party to the interest rate swaps. It does not have any forward foreign currency contracts or other derivatives.

18 Financial instruments – Fair values and risk management continued

Financial assets and liabilities

The Group has grouped its financial instruments into 'classes'. Although IFRS 7 does not define 'classes', as a minimum instruments measured at amortised cost should be distinguished from instruments measured at fair value.

a) Currency and maturity of financial assets

Financial assets not measured at fair value

	2020				2019			
	Total £m	Within one year £m	Between one and five years £m	After five years £m	Total £m	Within one year £m	Between one and five years £m	After five years £m
Cash and cash equivalents:								
pounds sterling	**149.4**	**149.4**	**–**	**–**	178.9	178.9	–	–
other	**1.5**	**1.5**	**–**	**–**	2.0	2.0	–	–
	150.9	**150.9**	**–**	**–**	180.9	180.9	–	–
Loans to joint ventures and associates:								
pounds sterling	**–**	**–**	**–**	**–**	1.5	0.1	0.4	1.0
Trade, other receivables and amounts owed by joint ventures and associates:								
pounds sterling	**99.1**	**95.6**	**3.5**	**–**	85.1	83.0	2.1	–
other	**–**	**–**	**–**	**–**	0.1	0.1	–	–
	99.1	**95.6**	**3.5**	**–**	85.2	83.1	2.1	–
Total financial assets not measured at fair value	**250.0**	**246.5**	**3.5**	**–**	267.6	264.1	2.5	1.0

The Group has not disclosed the fair values for short-term trade receivables and amounts due from joint ventures and associates within financial assets, because their carrying amounts are a reasonable approximation of fair values.

Financial assets measured at fair value

The Group measures its currency forwards and interest rate swaps at fair value (see above) but does not have any other financial assets measured at fair value.

b) Currency and maturity of financial liabilities

Financial liabilities not measured at fair value

	2020			2019		
	Total £m	**Within one year £m**	**Between one and five years £m**	**Total £m**	**Within one year £m**	**Between one and five years £m**
Term Loan – pounds sterling	**46.8**	**7.2**	**39.6**	56.0	8.0	48.0
Revolving Credit Facility - pounds sterling	**–**	**–**	**–**	60.0	60.0	–
	46.8	**7.2**	**39.6**	116.0	68.0	48.0
Lease liabilities – pounds sterling	**33.3**	**12.5**	**20.8**	30.0	12.8	17.2
Trade and other payables – pounds sterling	**117.2**	**116.1**	**1.1**	126.2	125.5	0.7
Total financial liabilities not measured at fair value	**197.3**	**135.8**	**61.5**	272.2	206.3	65.9

The Group has not disclosed the fair values for short-term trade and other payables and bank loans within financial liabilities, because their carrying amounts are a reasonable approximation of fair values.

Lease liabilities are carried at the present value of the minimum lease payments.

There are no financial liabilities carried at fair value.

18 Financial instruments – Fair values and risk management continued

Financial assets and liabilities continued

c) Reconciliation of trade and other receivables and trade and other payables to the statement of financial position

	2020		2019	
	Current £m	Non-current £m	Current £m	Non-current £m
Trade and other receivables (as above)	**95.6**	**3.5**	83.1	2.1
Contract assets	**97.3**	**–**	133.5	–
Prepayments and accrued income	**25.8**	**–**	31.0	–
	218.7	**3.5**	247.6	2.1

	2020		2019	
	Current £m	Non-current £m	Current £m	Non-current £m
Trade and other payables (as above)	**116.1**	**1.0**	125.5	0.7
Contract liabilities	**5.5**	**–**	6.4	–
Accruals and deferred income	**124.4**	**–**	115.5	–
	246.0	**1.0**	247.4	0.7

d) Effective interest rates of financial assets and liabilities

	2020	2019
Financial assets		
Cash and cash equivalents	**0.0% to 0.7%**	0.0% to 0.7%
Loans to joint ventures and associates	**10.7% to 13.6%**	10.7% to 13.6%
Financial liabilities		
The Group has a Term Loan and a Revolving Credit Facility (RCF). The £46.8m (net of fees) (2019: £56.0m) Term Loan and £nil (2019: £60.0m) of the RCF were drawn at the year-end. These loans are unsecured and carry interest at floating rates at a margin over LIBOR and the effective LIBOR cost to the Group on £50.0m of borrowings was fixed by entering into interest rate swaps in 2017.		

The Company's financial assets comprised cash at bank of £20.1m (2019: £0.1m) and trade and other receivables of £134.9m (2019: £175.4m) with £134.9m (2019: £174.2m) denominated in pounds sterling and £nil (2019: £1.2m) denominated in euros and all maturing within one year.

The Company's financial liabilities comprise trade and other payables of £26.4m (2019: £26.4m) denominated in pounds sterling, the £46.8m (net of fees) (2019: £56.0m) Term Loan denominated in pounds sterling and the £nil RCF denominated in pounds sterling (2019: £60.0m). The Term Loan matures between one and five years, all other liabilities mature within one year.

Measurement of fair value

Valuation techniques and significant unobservable inputs

The following tables show the valuation techniques used in measuring Level 3 and Level 2 fair values, as well as the significant unobservable inputs used. There are no financial instruments whose value could be determined under Level 1.

Financial instruments measured at fair value

Type	Valuation technique	Significant unobservable inputs	Inter relationship between significant unobservable inputs and fair value measurement
Deferred consideration	Discounted cash flows: The valuation models consider the present value of the contractual payments, discounted using a risk-adjusted discount rate.	Risk-adjusted discount rate (12.5%)	The estimated fair value would increase (decrease) if the risk-adjusted discount rate were lower (higher).
Cash flow hedges	Market comparison technique: The fair values are based on broker quotes. Similar contracts are traded in an active market and quotes reflect the actual transactions in similar instruments. Interest rate swaps are measured by discounting the related cash flows using yield curves derived from prevailing market interest rates.	Not applicable.	Not applicable.

Financial instruments not measured at fair value

Type	Valuation technique	Significant unobservable inputs
Other financial liabilities (as above)	Discounted cash flow.	Not applicable.
Revolving Credit Facility	Discounted cash flow.	Not applicable.
Term Loan	Discounted cash flow.	Not applicable.

Level 3 fair values

The following table shows a reconciliation from the opening to closing balances for Level 3 fair values:

	Deferred consideration £m
At 1 January 2019	1.2
Addition charged to income statement (including unwind of discount)	0.3
Payments	(1.5)
At 31 December 2019	–
At 1 January 2020	**–**
At 31 December 2020	**–**

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19 Trade and other payables

	Group		Company	
	2020 £m	2019 £m	2020 £m	2019 £m
Current liabilities				
Trade payables	**80.5**	97.4	**–**	–
Other payables	**28.3**	21.2	**0.1**	0.1
Social security	**6.9**	6.5	**–**	–
Contract liabilities	**5.5**	6.4	**–**	–
Accruals and deferred income	**124.4**	115.5	**1.6**	1.2
Amounts owed to joint ventures and associates	**0.4**	0.4	**–**	–
Amounts owed to subsidiary undertakings	**–**	–	**26.3**	26.3
	246.0	247.4	**28.0**	27.6
Non-current liabilities				
Other payables	**1.1**	0.7	**–**	–
	1.1	0.7	**–**	–

Accruals and deferred income include subcontract liabilities (not yet payable), subcontract retentions and other accruals and deferred income.

The amounts included in contract liabilities and in deferred income at 31 December 2019 have all been recognised as revenue in the year.

The directors consider that the carrying amount of trade payables, other payables, social security and amounts owed to joint ventures and associates approximates to their fair value.

Financial risk management policies are in place that seek to ensure that all payables are paid within their credit timeframes.

20 Provisions for other liabilities and charges

Group	Other £m
Current	
At 1 January 2019	0.9
Provided	0.6
Utilised	(0.8)
At 31 December 2019	0.7
At 1 January 2020	**0.7**
Provided	**0.4**
Utilised	**(0.5)**
At 31 December 2020	**0.6**

Company	Funding obligations £m
Current	
At 1 January 2019	0.1
Reclassified from non-current	0.1
Utilised	(0.1)
At 31 December 2019	0.1
At 1 January 2020	**0.1**
Reclassified from non-current	**0.1**
Utilised	**(0.1)**
At 31 December 2020	**0.1**
Non-current	
At 1 January 2019	0.9
Reclassified to current	(0.1)
At 31 December 2019	0.8
At 1 January 2020	**0.8**
Reclassified to current	**(0.1)**
At 31 December 2020	**0.7**

Group

Other provisions, mainly comprise insurance provisions and provisions for remedial costs, most of which are expected to be used over the next year.

Company

Provisions in the Company relate to funding obligations to a non-trading overseas subsidiary, which eliminates on consolidation.

21 Employee benefits

Pensions

A defined benefit pension scheme is operated in the UK and a number of defined contribution pension schemes are in place in the UK and overseas. Contributions are paid by subsidiary undertakings and, to the defined contribution schemes, by employees. The total pension charge in the income statement was £12.7m comprising £12.9m included in operating costs less £0.2m interest income included in net finance expense (2019: £12.3m, comprising £12.4m in operating costs less £0.1m interest income included in net finance expense).

The Company does not operate a pension scheme.

Defined benefit scheme

The defined benefit scheme was closed to new members on 31 May 2005 and from 1 April 2006 future benefits were calculated on a Career Average Revalued Earnings basis. The scheme was closed to future accrual of benefits to members on 30 September 2009. A full actuarial valuation of the scheme was carried out as at 31 March 2019 and this was updated to 31 December 2020 by a qualified independent actuary. At 31 December 2020, there were 2,869 retirees and 2,730 deferred members. The weighted average duration of the obligations is 17.1 years.

	2020 £m	2019 £m	2018 £m
Present value of defined benefit obligations	**(886.5)**	(812.1)	(752.7)
Fair value of scheme assets	**880.9**	817.0	748.5
Recognised (liability)/asset for defined benefit obligations	**(5.6)**	4.9	(4.2)

Movements in present value of defined benefit obligations

	2020 £m	2019 £m
At 1 January	**812.1**	752.7
Past service cost – GMP equalisation charge	**0.9**	–
Interest cost	**16.3**	20.6
Remeasurements – demographic assumptions	**(2.9)**	(7.5)
Remeasurements – financial assumptions	**99.0**	74.6
Remeasurements – experience adjustments	**(4.6)**	9.0
Benefits paid	**(34.3)**	(37.3)
At 31 December	**886.5**	812.1

Movements in fair value of scheme assets

	2020 £m	2019 £m
At 1 January	**817.0**	748.5
Interest income	**16.5**	20.7
Remeasurements – return on assets	**71.5**	69.1
Contributions by employer	**10.6**	16.3
Administrative expenses	**(0.4)**	(0.3)
Benefits paid	**(34.3)**	(37.3)
At 31 December	**880.9**	817.0

Expense recognised in the income statement

	2020 £m	2019 £m
Administrative expenses paid by the pension scheme	**(0.4)**	(0.3)
Administrative expenses paid directly by the Group	**(1.7)**	(1.7)
GMP equalisation charge	**(0.9)**	–
Interest income on the net liabilities/assets of the defined benefit pension scheme	**0.2**	0.1
	(2.8)	(1.9)

The GMP (Guaranteed Minimum Pension) equalisation charge resulted from a decision in November 2020 when the High Court issued a judgement involving Lloyds Banking Group defined benefit pension schemes. The judgement, which followed an earlier decision that the schemes should be amended to equalise pension benefits for men and women in relation to GMP benefits, ruled that the decision would also apply to past transfers from the schemes. The effect of GMP equalisation has implications for the majority of defined benefit schemes with liabilities before 1997. The change was recorded in the year as a £0.9m past service cost increase to the reported pension liabilities.

Fair value of scheme assets	2020 £m	2019 £m
Global equities	**125.0**	162.4
Multi-asset growth funds	**118.4**	162.2
Multi-credit fund	**139.8**	160.3
LDI plus collateral	**421.4**	251.8
PFI investments	**44.7**	51.0
Property	**15.7**	17.7
Cash	**15.9**	11.6
	880.9	817.0

All equities are quoted securities. The multi-asset growth funds comprise portfolios of quoted and unquoted investments. The multi-credit fund invests in a portfolio of primarily floating rate debt of non-investment grade or unrated borrowers. The Liability Driven Investments (LDI) portfolio is designed to respond to changes in gilt yields in a similar way to a fixed proportion of the liabilities. It comprises gilts, repos and swaps and is supported by a liquid absolute return fund providing collateral. The PFI investments is the portfolio of interests in 10 PFI investments transferred by the Group to The Costain Pension Scheme between 2010 and 2014.

Quoted equities are valued at the prevailing bid, offer or middle market stock exchange or over-the-counter market prices. In the multi-asset growth funds, the fair values of the underlying unquoted assets are determined by the fund managers using quoted prices for similar assets or other valuation techniques where all the inputs are directly observable or indirectly observable from market data. The loans in the multi-credit fund may be priced either using quotes from a pricing vendor (if available), a broker or at a level determined by the investment manager that is agreed with the fund. The LDI fund is valued using a unit price calculated for the fund based on the net asset value of the underlying assets. The PFI investments are valued using a Level 3 valuation method based on the future cash flows of the individual investments. The property investment is held within a limited partnership and is valued by the general partner in accordance with RICS valuation standards.

The pension scheme does not have any assets invested in the Group's financial instruments or in property or other assets used by the Group.

Principal actuarial assumptions (expressed as weighted averages)

	2020 %	2019 %	2018 %
Discount rate	**1.35**	2.05	2.80
Future pension increases	**2.85**	2.85	3.00
Inflation assumption	**2.95**	2.95	3.20

21 Employee benefits continued

Pensions continued

Weighted average life expectancy from age 65 as per mortality tables used to determine benefits at 31 December 2020 and 31 December 2019 is:

	2020		2019	
	Male (years)	Female (years)	Male (years)	Female (years)
Currently aged 65	**22.3**	**24.1**	22.3	24.2
Non-retirees currently aged 45	**23.3**	**25.3**	23.6	25.7

The discount rate, inflation and pension increase and mortality assumptions have a significant effect on the amounts reported. Changes in these assumptions would have the following effects on the defined benefit scheme:

	Pension liability £m	Pension cost £m
Increase discount rate by 0.25%, decreases pension liability and reduces pension cost by	**35.8**	**0.5**
Decrease inflation, pension increases by 0.25%, decreases pension liability and reduces pension cost by	**30.6**	**0.4**
Increase life expectancy by one year, increases pension liability and increases pension cost by	**41.7**	**0.6**

As highlighted above, the defined benefit scheme exposes the Group to actuarial risks such as longevity, interest rate, inflation and investment risks. The LDI portfolio is designed to respond to changes in gilt yields in a similar way to a fixed proportion of the liabilities. With the LDI portfolio, if gilt yields fall, the value of the investments will rise to help partially match the increase in the trustee valuation of the liabilities arising from a fall in the gilt yield based discount rate. Similarly, if gilt yields rise, the value of the matching asset portfolio will fall, as will the valuation of the liabilities because of an increase in the discount rate. The leverage within the LDI portfolio means the equivalent of 95 per cent of the value of the assets is sensitive to changes in interest rates and inflation and mitigates the equivalent movement in the liabilities.

In accordance with the pension regulations, a triennial actuarial review of the Costain defined benefit pension scheme was carried out as at 31 March 2019. In March 2020, the valuation and an updated deficit recovery plan were agreed with the scheme Trustee resulting in cash contributions of £10.2m for each year commencing 1 April 2020 (increasing annually with inflation) until the deficit is cleared, which would be in 2029 on the basis of the assumptions made in the valuation and agreed recovery plan.

In addition, as previously implemented, the Group will continue to make an additional contribution so that the total deficit contributions match the total dividend amount paid by the Company each year. Any additional payments in this regard would have the effect of reducing the recovery period in the agreed plan. The Group will also pay the expenses of administration in the next financial year.

Any surplus of deficit contributions to the Costain Pension Scheme would be recoverable by way of a refund, as the Group has the unconditional right to any surplus once all the obligations of the Scheme have been settled. Accordingly, the Group does not expect to have to make provision for these additional contributions arising from this agreement in future accounts.

Defined contribution schemes

Several defined contribution pensions are operated. The total expense relating to these plans was £9.9m (2019: £10.4m.

Share-based payments

The Company operates a number of share-based payment plans as described below.

Long-Term Incentive Plans (LTIP)

Shareholders approved Long-Term Incentive Plan at the 2014 AGM that allows for conditional awards with a maximum face value of up to 100% of base salary to be awarded. Performance conditions, such as those based on earnings per share, are determined by the Remuneration Committee of the Board at the time of grant.

Annual Incentive Plan (AIP)

Executive directors and other senior management are eligible to participate in the Company's Annual Incentive Plan, under which one third of the award is payable in shares. The total AIP award of up to 150% of base salary has performance conditions based on adjusted EBIT (Earnings before interest, tax and other items) (at least 50% of the award) and other measures. The share award element vests on the second anniversary of the date of grant and will be satisfied by shares purchased by a trust on behalf of the Group. It will not lead to any dilution of shareholder interest. Participants must be in employment with the Company and not under notice of termination (either given or received) on the date of vesting.

Deferred Share Bonus Plan (DSBP)

Prior to 2014, executive directors and other senior management were eligible to participate in the Company's Deferred Share Bonus Plan which allowed for conditional awards with a face value of up to 50% of base salary with a performance condition based on adjusted EBIT (Earnings before interest, tax and other items). The deferred bonus award was satisfied by shares purchased by a trust on behalf of the Group, so did not dilute shareholder interests. The last grant under the DSBP was made in 2014 and vested on 31 March 2016.

Save As You Earn Scheme (SAYE)

The Company operates a SAYE scheme that is open to all eligible employees who pay a fixed amount from salary into a savings account each month and elect to save over three years. At the end of the savings period, employees have six months in which to exercise their options (after which the options expire) using the funds saved. If employees decide not to exercise their options, they may withdraw the funds saved. Exercise of options is subject to continued employment within the Group (except where permitted by the rules of the scheme).

Share-based payment expense

The amounts recognised in the income statement, before tax, for share-based payment transactions with employees was £0.9m (2019: £0.5m); the entire charge relates to subsidiaries.

Options outstanding at the end of the year

The movements in the outstanding LTIPs (exercise price £1 per individual grant), AIP (Nil-cost option) and DSBPs (Nil-cost option), which arrange for the grant of shares to executive directors and senior management, and the outstanding SAYE schemes are shown below.

	LTIP	DSBP	AIP	SAYE	
	Number (m)	Number (m)	Number (m)	Number (m)	Weighted average exercise price (p)
Outstanding at 1 January 2019	1.3	0.1	1.0	3.1	326.1
Adjusted during the year	0.1	–	(0.1)	–	–
Forfeited during the year	–	–	(0.2)	(1.0)	325.8
Exercised during the year	(0.4)	–	(0.2)	(0.2)	310.3
Granted during the year	0.6	–	–	1.3	118.4
Outstanding at 31 December 2019	1.6	0.1	0.5	3.2	243.0
Outstanding at 1 January 2020	**1.6**	**0.1**	**0.5**	**3.2**	**326.1**
Adjusted during the year	**0.2**	**(0.1)**	**0.2**	**0.1**	**229.3**
Forfeited during the year	**(0.7)**	**–**	**(0.8)**	**(1.2)**	**265.3**
Exercised during the year	**(0.1)**	**–**	**(0.3)**	**–**	**–**
Granted during the year	**2.8**	**–**	**0.8**	**–**	**–**
Outstanding at 31 December 2020	**3.8**	**–**	**0.4**	**2.1**	**229.5**
Exercisable at the end of the period	**0.2**	**–**	**0.2**	**0.5**	**357.4**

Share options outstanding at the end of the year had a weighted average remaining contractual life of 4.8 years (2019: 4.9 years).

21 Employee benefits continued

Share-based payments continued

The fair value of options granted is calculated using the Black-Scholes option pricing model. The aggregate fair value of options granted during the year was £1.1m (2019: £2.5m). The assumptions used in valuing the grants were:

	2020	2019
Expected volatility	**20%**	20%
Expected life (years)	**3.0**	3.0
Risk-free interest rate	**1.1%**	1.3%
Expected dividend yield	**3.0%**	3.0%

The expected volatility is based on the historical share price volatility over a term matching the expected life. The expected life is based on management's best estimate having regard to the effect of non-transferability, exercise restrictions and behavioural considerations.

22 Share capital

	2020		2019	
	Number (millions)	Nominal value £m	Number (millions)	Nominal value £m
Issued share capital				
Shares in issue at beginning of year – ordinary shares of 50p each, fully paid	**108.3**	**54.1**	107.0	53.5
Issued in year (see below)	**166.7**	**83.4**	1.3	0.6
Shares in issue at end of year – ordinary shares of 50p each, fully paid	**275.0**	**137.5**	108.3	54.1

The Company's issued share capital comprised 274,949,741 ordinary shares of 50 pence each as at 31 December 2020.

On 7 May 2020, the Company announced details of a proposed Firm Placing and Placing and Open Offer (the "Capital Raising") to raise gross proceeds of £100m (£92.5m after expenses), approximately £80m by way of a Firm Placing of 133,348,799 ordinary shares and approximately £20m by way of a Placing and Open Offer of 33,317,868 ordinary shares. The Capital Raising was approved by the Company's shareholders on 27 May 2020. On 29 May 2020, 166,666,667 ordinary shares of 50 pence each were issued in connection with the Capital Raising at an offer price of 60 pence per share.

All shares rank pari passu regarding entitlement to capital and dividends.

In the year, no dividends were paid and therefore no shares were issued under the Scrip Dividend Scheme.

No options were exercised under the SAYE schemes in the year as all options were 'underwater' so the company issued nil shares in respect of SAYE. Similarly, the 2017 LTIP lapsed in full and so no shares were issued in respect of the LTIP.

The share options outstanding at the year end are detailed in note 21. Details of the performance conditions and the options granted to executive directors are given in the Directors' Remuneration report.

23 Contingent liabilities

Group

Group bank borrowing facilities and bank and surety bonding facilities are supported by cross-guarantees given by the Company and participating companies in the Group.

There are contingent liabilities in respect of:

- performance bonds and other undertakings entered into in the ordinary course of business and
- legal claims arising in the ordinary course of business.

It is not anticipated that any material liabilities will arise from the contingent liabilities other than those provided.

Company

The Company has guaranteed the obligations of the subsidiary companies that are participating employers of The Costain Pension Scheme, the defined benefit pension scheme in the UK. At 31 December 2020, the liability was £5.6m (2019: asset of £4.9m) on an IAS 19 basis and is included in these financial statements as disclosed in note 21.

24 Subsidiary undertakings, joint ventures, associates and joint operations

	Activity	Percentage of equity held	Registered office/principal place of business
Principal subsidiary undertakings			
Costain Limited	Engineering, Construction and Maintenance	100	(1)
Costain Engineering & Construction Limited	Holding and Service Company	100	(1)
Costain Integrated Services Limited	Professional Services	100	(1)
Costain Integrated Technology Solutions Limited	Technology Integration	100	(1)
Costain Oil, Gas & Process Limited	Process Engineering	100	(1)
Costain Upstream Limited	Engineering and Design Services	100	(2)
Richard Costain Limited	Service Company	100	(1)

	Activity	Issued share capital £m	Percentage of equity held	Registered office/principal place of business	Reporting date
Principal joint ventures					
ABC Electrification Ltd	Rail Electrification	–	33.3	(9)	31 March
4Delivery Limited	Civil Engineering	–	40	(3)	31 March

The equity capital of the above are held by subsidiary undertakings with the exception of Richard Costain Ltd and Costain Engineering & Construction Limited.

All undertakings operate mainly in the country of incorporation. See key to registered office/principal place of business at the bottom of this note.

All holdings are of ordinary shares.

24 Subsidiary undertakings, joint ventures, associates and joint operations continued

	Activity	Percentage interest	Country of business
Major joint operations			
Alstom-Babcock-Costain Joint Venture – Edinburgh to Glasgow Rail Improvement Programme	Rail Engineering	33.3	UK
Alstom-Costain C644 Joint Venture – Traction power – Crossrail	Rail Engineering	32.5	UK
Alstom-Costain C650 Joint Venture – HV power supply – Crossrail	Rail Engineering	32.5	UK
A-one+ Joint Venture – ASC area 12 – Highways England	Engineering and Maintenance	33.3	UK
A-one+ Joint Venture – ASC area 4 – Highways England	Engineering and Maintenance	33.3	UK
ATC Joint Venture – C610 – Crossrail	Rail Engineering	32.5	UK
CH2M-Costain Joint Venture – Area 14 M&R contract	Engineering and Maintenance	50	UK
Costain-CH2M UK – ESCC JV – East Sussex highway maintenance	Engineering and Maintenance	50	UK
Costain-Atkins-Black & Veatch Joint Venture – Thames Water AMP6	Engineering	70	UK
Costain-Galliford Try Joint Venture – M1 smart motorways	Civil Engineering	70	UK
Costain-MWH Joint Venture – Southern Water AMP6	Civil Engineering	50	UK
Costain-Skanska C360 Joint Venture – Eleanor Street – Crossrail	Civil Engineering	50	UK
Costain-Skanska C405 Joint Venture – Paddington – Crossrail	Civil Engineering	50	UK
Costain-Skanska C412 Joint Venture – Bond Street – Crossrail	Civil Engineering	50	UK
Costain-Skanska – HS2 Enabling works	Civil Engineering	50	UK
Costain-Skanska Joint Venture – A14 Cambridge to Huntingdon Improvement Scheme	Civil Engineering	50	UK
Costain-Skanska Joint Venture – Balfour Beatty Joint Venture – A14	Civil Engineering	33.3	UK
CVB Joint Venture – Thames Tideway Tunnel East	Civil Engineering	40	UK
Skanska-Costain-Strabag S1 Joint Venture – HS2 Main Works	Rail Engineering	34	UK
Skanska-Costain-Strabag S2 Joint Venture – HS2 Main Works	Rail Engineering	34	UK
The ASP Batch Joint Venture – Severn Trent – Large capital schemes outside AMP6	Engineering	33.3	UK

In accordance with Section 409 of the Companies Act 2006 a full list of subsidiaries, associates, joint ventures and joint arrangements is required:

	Status	Percentage of equity held	Registered office/principal place of business
Other subsidiaries owned directly by Costain Group PLC			
Costain Civil Engineering Limited	Holding Company	100	(1)
Costain Investments Limited	Dormant	100	(11)
Costain USA Inc.	Holding Company	100	(6)
County & District Properties Limited	Trading	100	(1)
Renown Investments (Holdings) Limited	Trading	100	(1)
Lysander Services Limited	Trading	100	(1)
Other subsidiaries owned indirectly by Costain Group PLC			
AB Rhead & Associates Limited	Dissolved 2020	0	(1)
Alcaidesa Servicios S.A.U.	Disposed 2020	0	(5)
Alway Associates (London) Limited	Dissolved 2020	0	(1)
Brunswick Infrastructure Services Limited	Trading	100	(1)
Calvert & Russell Limited	Trading	100	(1)
C-in-A Limited	Dissolved 2020	0	(1)
CLM Engineering (Overseas) Limited	Dormant	100	(1)
COGAP (Middle East) Limited	Holding Company	100	(1)
Construction Study Centre Limited	Trading	100	(1)
Costain Abu Dhabi Co WLL	Trading	49	(12)
Costain Alcaidesa Limited	Holding Company	100	(1)
Costain America Inc	Holding Company	100	(6)
Costain Building & Civil Engineering Limited	Holding Company	100	(1)
Costain Construction Limited	Dormant	100	(1)
Costain de Venezuela CA	Dormant	100	(18)
Costain Energy Solutions Limited	Trading	100	(1)
Costain Engineering & Construction (Overseas) Limited	Holding Company	100	(1)
Costain Engineering Services Inc	Dormant	100	(6)
Costain International Limited	Dormant	100	(1)
Costain Management Design Limited	Dormant	100	(1)
Costain Minerals Inc.	Dormant	100	(6)
Costain Mining Services Inc.	Dormant	100	(6)
Costain Oil, Gas & Process (Nigeria) Limited	Dormant	95	(19)
Costain Oil, Gas & Process (Overseas) Limited	Dormant	100	(1)
Costain Process Construction Limited	Dormant	100	(1)
EPC Offshore Limited	Dissolved 2020	0	(2)
JBCC Rhead PTE Limited	Trading	100	(15)
L.R.R. Holdings Limited	Dissolved 2020	0	(1)
Promanex (Civils & Industrial Services) Limited	Dormant	100	(1)
Promanex (Construction & Maintenance Services) Limited	Dormant	100	(1)
Promanex Group Holdings Limited	Holding Company	100	(1)

24 Subsidiary undertakings, joint ventures, associates and joint operations continued

	Status	Percentage of equity held	Registered office/principal place of business
Other subsidiaries owned indirectly by Costain Group PLC continued			
Promanex Group Limited	Dormant	100	(1)
Promanex (Total FM & Environmental Services) Ltd	Trading	100	(1)
RG Bidco Limited	Dormant	100	(1)
Rhead Group Holdings Limited	Holding Company	100	(1)
Rhead Holdings Limited	Holding Company	100	(1)
Southview Holdings (Private) Limited	Disposed 2020	0	(20)
Southview Investments (Private) Limited	Disposed 2020	0	(20)
Sunland Mining Corporation (II)	Dormant	100	(6)
Westminster Plant Co. Limited	Dormant	100	(1)
Other joint ventures or associates owned indirectly by Costain Group PLC			
ACM Health Solutions Limited	Dormant	33.3	(4)
Brighton & Hove 4Delivery Limited	Trading	49	(3)
Budimex & Costain SP ZO.O	Dormant	50	(17)
China Harbour-Costain Mexico S de RL de CV	Dormant	50	(16)
Gravitas Offshore Limited	Dormant	45	(7)
Integrated Bradford LEP FIN Co One Limited	Disposed 2020	0	(8)
Integrated Bradford LEP Limited	Disposed 2020	0	(8)
Integrated Bradford PSP Limited	Disposed 2020	0	(8)
Jalal Costain WLL	Dormant	49	(13)
L21 Lewisham PSP Limited	Disposed 2020	0	(10)
Lewisham Schools for the Future LEP Limited	Disposed 2020	0	(10)
Nesma-Costain Process Co. Limited	Dormant	50	(14)

Costain Abu Dhabi Co WLL has been treated as a subsidiary undertaking due to Costain having power to influence and control the composition of the Board of directors and the beneficial right to all the net income. Dormant status means no or a very small number of transactions with activity winding down.

	Activity	Percentage interest	Country of business
Other joint operations, including completed			
ACTUS Joint Venture – Trawsfynydd nuclear power station active waste retrieval	Civil Engineering	25	UK
Amec-Costain-Jacobs Joint Venture – Magnox ILW Management Programme	Civil Engineering	33.3	UK
A-one+ Integrated Highway Services – MAC 7	Engineering and Maintenance	33.3	UK
A-one+ Integrated Highway Services – MAC 10	Engineering and Maintenance	25	UK
A-one+ Integrated Highway Services – MAC 12	Engineering and Maintenance	33.3	UK
A-one+ Integrated Highway Services – MAC 14	Engineering and Maintenance	33.3	UK
Bachy Soletanche-Costain-Skanska Joint Venture – CTRL 240 – Stratford Box	Civil Engineering	33.3	UK
Balfour Beatty-BmJV-Carillion-Costain Joint Venture – National Major Projects – Highways England	Civil Engineering	22	UK
Black & Veatch-Costain Joint Venture – Margate & Broadstairs UWWTD Scheme – Southern Water	Civil Engineering	50	UK
CosMott Joint Venture - Devonport Major Infrastructure Programme - Construction Delivery Partner	Consultancy	50	UK
Costain Arup Joint Venture - Yorkshire Water	Consultancy	50	UK
Costain-Carillion Joint Venture – M1 Widening and A5/M1 Link	Civil Engineering	100	UK
Costain-Dalekovod Joint Venture – National Grid HV Overhead Line System	Engineering	60	UK
Costain-Hochtief Joint Venture – Reading station	Civil Engineering	50	UK
Costain-John Mowlem-Skanska Joint Venture – A2/M2 widening (Cobham to Jct.2)	Civil Engineering	30	UK
Costain-Lafarge Joint Venture – East and South East Framework	Civil Engineering	50	UK
Costain-Lafarge Joint Venture – Midlands Framework	Civil Engineering	50	UK
Costain-Laing O'Rourke Joint Venture - Bond Street station	Civil Engineering	50	UK
Costain-Laing O'Rourke Joint Venture – Farringdon station	Civil Engineering	50	UK
Costain-Laing O'Rourke Joint Venture – King's Cross Eastern Range Refurbishment	Civil Engineering	50	UK
Costain-Skanska C411 Joint Venture – Bond Street – Crossrail	Civil Engineering	50	UK
Costain-Skanska Joint Venture – A14 Ellington to Fen Ditton	Civil Engineering	50	UK
Costain-Skanska Joint Venture – A43 Silverstone	Civil Engineering	50	UK
Costain-Skanska Joint Venture – Crossrail Civils Framework Enabling Works	Civil Engineering	50	UK
Costain-Skanska Joint Venture – Kings College Hospital, London	Building	50	UK
Costain-Skanska Joint Venture – Lower Precinct Shopping Centre, Coventry	Building	50	UK
Costain-Skanska Joint Venture - NGT Tunnels, London	Civil Engineering	52.6	UK
Costain-Skanska Joint Venture – Paddington Station Bakerloo Line Link Project	Civil Engineering	50	UK
Costain-Skanska Joint Venture – The new Met Office	Building	50	UK
Costain-Taylor Woodrow Joint Venture – King's Cross re-development & Phase II Northern works	Civil Engineering	50	UK
Costain-Vinci Construction Joint Venture - Shieldhall	Civil Engineering	50	UK
Costain-Vinci Joint Venture – M4 corridor around Newport	Civil Engineering	50	UK
Costain-VWS Joint Venture – Mersey Valley Processing Centre (Shell Green) Extension Project Stage 2	Engineering	50	UK

24 Subsidiary undertakings, joint ventures, associates and joint operations continued

	Activity	Percentage interest	Country of business
Other joint operations, including completed continued			
Educo UK Joint Venture – Bradford Schools	Building	50	UK
Galliford-Costain-Atkins Joint Venture – United Utilities	Engineering	42.5	UK
Lagan-Ferrovial-Costain – A8	Civil Engineering	45	UK
The e5 Joint Alliance Severn Trent Framework	Engineering	25	UK
TSIF-ILW Joint Venture – Trawsfynydd nuclear power station decommissioning	Civil Engineering	33.3	UK

Key to registered office/principal place of business

(1)	Costain House, Vanwall Business Park, Maidenhead, Berkshire, SL6 4UB, England
(2)	56 Carden Place, Aberdeen, AB10 1UP, Scotland
(3)	210 Pentonville Road, London, N1 9JY, England
(4)	Booths Park, Chelford Road, Knutsford, WA16 8QZ, England
(5)	Avda. Pablo Cerezo, s/n, Club de Golf Alcaidesa, 11360 – San Roque-Cádiz, Spain
(6)	The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware 19801 (New Castle County), USA
(7)	Whitehill House, Windmill Hill Business Park, Whitehill Way, Swindon, SN5 6PE, England
(8)	Chancery Exchange, 10 Furnival Street, London, EC4A 1AB, England
(9)	8th Floor, The Place, High Holborn, London, WC1V 7AA, England
(10)	3 More London Riverside, London, SE1 2AQ, England
(11)	P.O.Box N-7768, Bank Lane, Nassau, Bahamas
(12)	Building 4F, Corniche Road, Ground floor, Office 1, Mussafah Industrial Area, 3069, Abu Dhabi, UAE
(13)	Flat 33, Building 232, Road 18, Block 321, Manama, Bahrain
(14)	P.O.Box 6967, 21452, Jeddah, Saudi Arabia
(15)	Peninsula Plaza #27-01, 111 North Bridge Road, 179098, Singapore
(16)	Calle Delfines No. 268 – 2, Frac. Playa Ensenada, Ensenada, B.C., CP. 22880, Mexico
(17)	Marszałkowska 82, Warsaw, Mazowieckie, 00-517, Poland
(18)	Dormant company – Venezuela, no record of address
(19)	Dormant company – Nigeria, no record of address
(20)	10th Floor, Club Chambers Building, Corner Nelson Mandela Avenue / 3rd Street, Harare, Zimbabwe

25 Related party transactions

Group

A related party relationship exists with its subsidiaries, joint ventures and associates, joint operations, The Costain Pension Scheme and with its directors and executive officers.

Sales of goods and services

	2020			2019		
	Joint ventures and associates £m	Joint operations £m	Total £m	Joint ventures and associates £m	Joint operations £m	Total £m
Services of Group employees	**2.0**	**130.7**	**132.7**	2.9	177.8	180.7
Construction services and materials	**–**	**27.8**	**27.8**	–	37.8	37.8
	2.0	**158.5**	**160.5**	2.9	215.6	218.5

Balances with joint ventures and associates are disclosed in notes 16 and 19. Balances with joint operations are eliminated on consolidation.

The Costain Pension Scheme

Details of transactions between the Group and The Costain Pension Scheme are included in note 21.

Transactions with key management personnel

Disclosures related to the remuneration of key personnel as defined in IAS 24 'Related Party Disclosures' are given in note 6. Key management personnel, as defined under IAS 24 'Related Party Disclosures', have been identified as the Board of directors as the controls operated by the Group ensure that all key decisions are reserved for the Board.

The Directors of the Company and their immediate relatives control 445,112 ordinary shares in Costain Group PLC, which expressed as a percentage of the issued share capital is 0.16% (2019: 0.73%) of the voting shares of the Company. In addition, Mr Bishoy Azmy, non-independent non-executive director is the director representative of the shareholder ASGC which holds 41,666,666 shares and is a c.15% shareholder of the Company. Bishoy Azmy held no shares in his own name.

In addition to their salaries, in respect of the Executive Directors and executive officers, the Group provides non-cash benefits and contributes to defined contribution pension plans. Executive Directors and executive officers also participate in the Group's LTIP, DSBP, AIP and SAYE plans, which are detailed in note 21.

The compensation of key management personnel, including the directors, is as follows:

	Group	
	2020 £m	2019 £m
Directors' emoluments	**1.1**	1.4
Executive officers' emoluments	**1.3**	1.7
Post-employment benefits	**0.1**	0.2
Share-based payments	**0.3**	1.3
	2.8	4.6

The above amounts are included in employee benefit expense (note 6).

Louis Thompson, who until 5 July 2016 was a director of Simulation Systems Limited (now Costain Integrated Technology Solutions Limited), is a beneficiary of a pension scheme that owns and leases a property to a Costain subsidiary under a 25 year lease dated 2007. The rent is £10,600 per annum. Notice has been served to terminate the lease.

Company

The Company has no transactions with related parties other than the charge in relation to share-based payments (note 21) (2019: none).

26 Disposals of subsidiary and associated undertakings

Alcaidesa Servicios S.A.U. (Spain)

On 6 August 2020, the Group disposed of its investment in Alcaidesa Servicios S.A.U. for a net consideration of £3.6m.

	2020 £m
Property, plant and equipment	4.6
Trade and other receivables	0.1
Other payables	(0.2)
Interest bearing loans and borrowings	(0.5)
	4.0
Less net cash consideration	(3.6)
	0.4
Translation reserve less net investment hedge transferred to income statement	(0.8)
Profit on disposal	**(0.4)**

In 2019, the Group disposed of its investment in Alcaidesa Holding S.A.U. and its wholly owned subsidiary Alcaidesa Golf SLU for a net consideration of £11.8m, incurring a loss on disposal of £3.0m.

Zimbabwe subsidiaries

During April 2020, the Group completed the sale of its legacy companies that held property assets in Zimbabwe for £1.0m (net of costs), which as the net assets were held at no value represents the profit on disposal.

Associated undertakings

In August 2020, the Group completed the sale of its interests in its two remaining 'Building Schools for the Future' partnership companies for a combined consideration of £3.7m, which generated a profit of £1.6m.

Five-Year Financial Summary

	2020 £m	2019 £m	2018 £m	2017 £m	2016 £m
Revenue and profit					
Group revenue	**978.4**	1,155.6	1,463.7	1,684.0	1,573.7
Group operating (loss)/profit before other items	**(81.7)**	17.9	52.5	49.1	41.1
Other items:					
RDEC grant income	**–**	–	2.6	2.5	–
Arbitration award on historical building project	**–**	(9.7)	–	–	–
Impairment of Alcaidesa marina	**(0.6)**	(5.9)	–	–	–
Impairment of other investment	**(0.6)**	–	–	–	–
Profit on sales of interests in joint ventures and associates	**1.6**	–	–	–	–
Profit/(loss) on disposal of subsidiary undertakings	**1.4**	(3.0)	–	–	–
Refinancing advisory fees	**(1.2)**	–	–	–	–
Pension GMP equalisation charge	**(0.9)**	–	(8.6)	–	–
Amortisation of acquired intangible assets	**(1.0)**	(2.3)	(3.0)	(3.2)	(4.6)
Impairment of goodwill	**(9.0)**	–	–	–	–
Employment related and other deferred consideration	**–**	(0.2)	(0.4)	(1.2)	(1.6)
Group operating (loss)/profit	**(92.0)**	(3.2)	43.1	47.2	34.9
Share of results of joint ventures and associates	**0.2**	0.3	0.3	0.3	0.2
(Loss)/profit from operations	**(91.8)**	(2.9)	43.4	47.5	35.1
Finance income	**0.8**	1.0	0.4	0.4	0.6
Finance expense	**(5.1)**	(4.7)	(3.6)	(6.1)	(4.8)
Net finance expense	**(4.3)**	(3.7)	(3.2)	(5.7)	(4.2)
(Loss)/profit before tax	**(96.1)**	(6.6)	40.2	41.8	30.9
Taxation	**18.1**	3.7	(7.4)	(9.2)	(4.5)
(Loss)/profit for the year attributable to equity holders of the Parent	**(78.0)**	(2.9)	32.8	32.6	26.4
(Loss)/earnings per share – basic*	**(36.7)p**	(2.3)p	30.9p	31.1p	25.7p
(Loss)/earnings per share – diluted*	**(36.7)p**	(2.3)p	30.2p	30.6p	25.0p
Dividends per ordinary share					
Final	**–**	–	10.00p	9.25p	8.40p
Interim	**–**	3.80p	5.15p	4.75p	4.30p
Summarised consolidated statement of financial position					
Intangible assets	**52.1**	59.0	58.5	62.5	65.9
Property, plant and equipment	**39.9**	44.1	40.0	43.0	42.2
Investments in and loans to equity accounted joint ventures and associates	**0.4**	2.5	2.5	2.7	2.6
Retirement benefit asset	**–**	4.9	–	–	–
Other non-current assets	**27.1**	6.7	6.3	15.0	22.6
Total non-current assets	**119.5**	117.2	107.3	123.2	133.3
Current assets	**370.4**	435.3	467.3	539.8	512.9
Total assets	**489.9**	552.5	574.6	663.0	646.2
Current liabilities	**266.3**	328.9	326.7	423.2	441.6
Retirement benefit obligations	**5.6**	–	4.2	23.9	73.5
Other non-current liabilities	**61.5**	65.9	61.4	61.9	31.5
Total liabilities	**333.4**	394.8	392.3	509.0	546.6
Equity attributable to equity holders of the Parent	**156.5**	157.7	182.3	154.0	99.6

* The Loss per share figures for 2019 have been restated for the capital raise in 2020

Financial Calendar and Other Shareholder Information

Financial calendar[1]

Full year results	16 March 2021
Annual report mailing	1 April 2021
Annual General Meeting	6 May 2021
Half-year end	30 June 2021
Half-year trading update	July 2021
Half-year results 2021	25 August 2021
Financial year-end	**31 December 2021**

1 The financial calendar may be updated from time to time throughout the year. Please refer to the Investors section of our website at www.costain.com for up-to-date details.

Scrip dividend scheme

The Company will pay no final dividend in respect of the year ended 31 December 2020. A scrip dividend scheme is offered when a dividend is paid. Those shareholders who have already elected to join the scheme will automatically have their future dividends sent to them in this form.

Shareholders wishing to join the scheme for all future dividends should return a completed mandate form to the Registrar, Equiniti. Copies of the mandate form and the scrip dividend brochure can be downloaded from the Company's website at www.costain.com or obtained from Equiniti by telephoning 0371 384 2268* or +44 (0) 121 415 7173 if calling from outside the UK.

Analysis of shareholders

as at 3 March 2021

	Total number of holdings	Percentage of holders	Total number of shares	Percentage issued capital
Shareholdings 100,000 and more	132	1.54	261,990,447	95.29
Shareholdings 50,000–99,999	52	0.60	3,649,587	1.33
Shareholdings 25,000–49,999	49	0.57	1,778,871	0.65
Shareholdings 5,000–24,999	407	4.74	4,084,808	1.48
Shareholdings 1–4,999	7,953	92.55	3,446,028	1.25
Totals	**8,593**	**100**	**274,949,741**	**100**

Secretary

Sharon Harris

Registered Office

Costain House, Vanwall Business Park, Maidenhead, Berkshire SL6 4UB
Telephone 01628 842 444
www.costain.com
info@costain.com
Company Number 1393773

Registrar

Equiniti, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA
Telephone 0371 384 2250* or +44 (0)121 415 7047 if calling from outside the UK.

Website

www.shareview.co.uk

Dividend mandate

Shareholders can arrange to have their dividends paid directly into their bank or building society account, by completing a bank mandate form. The advantages of using this service are:

- the payment is more secure as you can avoid the risk of cheques getting lost in the post
- it avoids the hassle of paying in a cheque and
- there is no risk of lost, stolen or out-of-date cheques.

A mandate form can be obtained from the Company's website, or by contacting Equiniti on 0371 384 2250* or +44 (0) 121 415 7047 if calling from outside the UK and can also be obtained via the shareholder website at www.shareview.co.uk (see below for further details). Overseas shareholders can arrange for their dividends to be paid in their local currency and more information can be obtained from www.shareview.com/overseas.

Shareview service

The Shareview service from our registrar, Equiniti, allows shareholders to manage their shareholding online, giving:

- direct access to data held on their behalf on the share register including recent share movements, indicative valuations and dividend details and
- the ability to change their address or dividend payment instructions online.

To sign up for Shareview you need the 'shareholder reference' printed on your proxy form or dividend stationery. There is no charge to register.

When you register with the site, at www.shareview.co.uk, you can register your preferred format (post or email) for shareholder communications. If you select email as your mailing preference, you will be notified of various shareholder communications, such as annual results, by email instead of post.

If you have your dividends paid straight to your bank account, and you have selected email as your mailing preference, you can also collect your 'dividend tax confirmation' electronically. Instead of receiving the paper 'dividend tax confirmation', you will be notified by email with details of how to download your electronic version. Visit the website at www.shareview.co.uk for more details.

Details of software and equipment requirements are given on the website.

* Lines are open Monday to Friday 08.30am to 5.30pm, excluding public holidays in England and Wales, times may vary during the COVID-19 pandemic.

Bereavement services

In the event of the death of a shareholder the next of kin or administrator of the estate should contact our registrar, Equiniti. Equiniti have a Designated Bereavement Services Helpline on 0371 384 2793 (UK) or +44 121 415 0875 (overseas). You will be asked to supply a certified copy or the original of the death certificate, together with an appropriate authority to deal with the estate, such as a Grant of Probate.

Further information is available on www.shareview.co.uk.

Unsolicited mail

The Company is legally obliged to make its share register available to the general public. Consequently, some shareholders may receive unsolicited mail, including correspondence from unauthorised investment firms. Shareholders who wish to limit the amount of unsolicited mail they receive can contact The Mailing Preference Service at www.mpsonline.org.uk or on 0207 291 3310.

Further guidance can also be found on the Company's website at www.costain.com.

ShareGift

The Orr Mackintosh Foundation (ShareGift – Registered Charity No. 1052686) operates a charity share donation scheme for shareholders with small parcels of shares whose value makes it uneconomical to sell them. Details of the scheme are available on the ShareGift website at www.sharegift.org. Equiniti can provide stock transfer forms on request. Donating shares to charity in this way gives rise neither to a gain nor a loss for Capital Gains Tax purposes and the service is free of charge.

Website

The Company's website at www.costain.com provides information about the Group including its strategy and recent news. The 'Investors' section is a key source of information for shareholders, containing details of financial results, shareholder meetings and dividends. Current and past annual reports are also available to view and download.

Contact Us

Sharon Harris
General Counsel and Company Secretary

Sara Lipscombe
Group Communications Director

We welcome your views

Costain is committed to engaging in dialogue with all its stakeholders.

We are actively encouraging feedback on our annual report and would welcome any views you may have.

For shareholder information, please contact:
info@costain.com

For investor relations enquiries, please contact:
ir@costain.com

For corporate communications, please contact:
mediaenquiries@costain.com

www.costain.com/investors

Useful links

www.costain.com

www.costain.com/investors

www.costain.com/our-culture

www.costain.com/news

Disclaimer
The purpose of this document is to provide information to the members of Costain Group PLC. This document contains certain statements that are forward-looking statements. They appear in a number of places throughout this document and include statements regarding our intentions, beliefs or current expectations and those of our officers, directors and employees concerning, among other things, our results of operations, financial condition, liquidity, prospects, growth, strategies and the business we operate. By their nature, these statements involve uncertainty since future events and circumstances can cause results and developments to differ materially from those anticipated. The forward-looking statements reflect knowledge and information available at the date of preparation of this document and unless otherwise required by applicable law the Company undertakes no obligation to update or revise these forward-looking statements.

Nothing in this document should be construed as a profit forecast. The Company and its directors accept no liability to third parties in respect of this document save as would arise under English law.

Designed and produced by **emperor**
Visit us at **emperor.works**

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